

Bridging the Ethical Chasm:

Business Ethics as a Product of Culture & Politics in the Arab World

By

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Table of Contents

Abstract	4
Introduction	5
What are Business Ethics, Exactly?	8
Historical Survey of Business in the Middle East I: A Model of “Disjointed Development”	13
Historical Survey of Business in the Middle East II: The Role of Globalization	15
Corruption and the MENA Region	22
Defining Corruption: A Narrow Construction or a Spectrum?	22
Why Study Corruption?	25
The Relationship Between Corruption and GDP per Capita	26
Corruption as a Constraint to Growth, Stability, and Security	28
Corruption in the Middle East and North Africa	39
Cultural, Political, and Structural Underpinnings for the Poor Business Ethics Landscape in the Middle East	61
Culture and the Contours of Business Ethics	61
Violence, Instability, and Repression: Business & the Politics of War	73
Ethics and the Law: Structural Defects in the MENA Region	86
Bridging the Ethical Chasm: Solutions for Improving Business Ethics in the Middle East and North Africa	90
Reforming the State: Public Policy Objectives	91
Private Sector Responsibility and the Role of Firms	97
Civil Society and the Media	102
Conclusion	104

Abstract

In surveys and studies analyzing corruption around the globe, Middle Eastern and North African countries consistently rank among the worst in the world with respect to the pervasiveness of corruption in both the public and private sector. The poor business ethics landscape makes it exceedingly difficult to do business in the region, while also undermining the development of effective political and economic institutions. The mismatch between societal virtues of shared prosperity and incentives for short-term, selfish reward amounts to what I call an *ethical chasm*, a symptom of cultural, political, and structural factors. This makes it critical that businesses and policymakers alike develop reform plans that will improve ethical decision making at the firm and individual level. This paper offers a tangible plan of action for public actors, individual firms, and civil society, with the objective of advancing reform efforts in the Arab World.

Before offering these practical changes, it is important to take a step back and look at what might be driving the perceived poor business ethics environment in the region. I begin with a historical survey of business in the Middle East, beginning with the end of the Ottoman Empire to the present day. In doing so, important differences between the region's economic development and other areas of the world are illuminated. The main finding is that although the Arab world was subject to many of the same forces that brought the developed world into its modern form, these forces, namely globalization, failed to produce the same kinds of economic results in the Middle East. Following this historical survey is a discussion of corruption, its impacts, and its relevance in the business ethics context. Furthermore, I analyze data from corruption surveys to compare the region with its counterparts, as well as to compare sub-regions within the Arab world.

With this important context, I lay out what are the major cultural, political, and structural underpinnings to the problem of corruption and business ethics in the region, relying on evidence from faith, cultural norms, violent conflict, and the law. These factors color what constitute ethical or moral behavior in the business context and help focus reformers on important targets for change.

Finally, utilizing the framework developed through analysis of the business ethics environment, I propose reforms for public, private, and civil society actors. These reforms, which include plans like stronger anti-corruption enforcement and a greater sense of firm responsibility are designed to be practical, long-term changes to the ethical issues facing business in the Middle East. In doing so, I hope to bolster ongoing reform efforts both in and outside the region, with the goal of helping the Middle Eastern business community reach its full potential.

Introduction

In December 2010, the streets of the Arab world filled with throngs of youthful, angry voices, their cries of “the people demand the fall of the regime” echoing through the cities of Cairo, Tunis, and beyond. This tidal wave of Arab rage would soon become known as the Arab Spring, collapsing regimes that had stood over four decades and sending others into violent armed conflict. In its wake, many scholars attempted to trace the causes of the demonstrations, but given the diversity of the region’s governments, historical lineages, and religious makeups, a consensus impetus has remained elusive. That being said, there are a many popular explanations that purport to have the answer. For example, some have argued that the movement was the result of the digital revolution, wherein the rise of mobile phones and social media platforms gave previously incapacitated masses the ability to mobilize for collective action against regimes that were already heavily detested by their populations.¹ Others have blamed the failure of Arab dictatorships to respond to economic and environmental shifts in the late 1990s and early 2000s that forced thousands formerly rural families to move to urban areas, causing unemployment and economic frustration to skyrocket.² These perspectives represent just a bare few of the many that have attempted to explain the precursors to the Arab Spring, whose nature has captured the fascination of academics, journalists, and regional analysts alike.

¹ Hussain, Muzammil M., Philip N. Howard. (2013). What Best Explains Successful Protest Cascades? ICTs and the Fuzzy Causes of the Arab Spring. *International Studies Review*, doi: 10.1111/misr.12020

² De Châtel, F. (2014). The Role of Drought and Climate Change in the Syrian Uprising: Untangling the Triggers of the Revolution. *Middle Eastern Studies*, 50(4), 521-535. Retrieved from <http://dx.doi.org/10.1080/00263206.2013.850076> Web. 29 Aug. 2016. <<http://dx.doi.org/10.1080/00263206.2013.850076>>.

Yet while it is clear that the causes of the Arab Spring are many, there lies a common thread behind most, if not all of such perspectives: that the anger in the Arab Street was to some extent the result of economic frustrations, and chief among them the problem of public and private corruption. That is not to say that corruption was the pivotal factor that moved millions of Arabs to take to the streets in 2011, but rather that it was a key constituent in a confluence of economic failures. It is probable, for example, that spikes in food prices and inflation in the years leading up to the Arab Spring became conflated with suffocating corruption; Opaque fiscal and monetary policies left the public in the dark as to what was driving slow growth and in some cases, economic contraction. However, the punishing hand of *fassad* (Arabic for corruption) was seen and felt by all. As a result, what may have been one of many factors generating economic frustration became the rallying point through which protestors expressed their anger. In fact, the spark that lit the fuse was the self-immolation of Tunisian street vendor Mohamed Bouazizi, who took his own life when state authorities harassed him for failing to pay bribes to continue his business.³ Mohamed's story resonated with the hundreds of thousands of youths in the Middle East and North Africa (MENA)⁴ region who felt disenfranchised by a corrupt and unethical business environment.

³ Fisher, M. (2011, March 26). In Tunisia, act of one fruit vendor sparks wave of revolution through Arab world. *The Washington Post*. Retrieved from https://www.washingtonpost.com/world/in-tunisia-act-of-one-fruit-vendor-sparks-wave-of-revolution-through-arab-world/2011/03/16/AFjfsueB_story.html

⁴ A quick note on the usage of MENA and the Middle East: The two are used interchangeably throughout this paper and are used to describe the Arabic speaking region stretching from Morocco to Iraq. Specific references to sub-regions within the Middle East will be explicit i.e. "North Africa" or "the Levant"



Tunisians demonstrate against corruption and political repression in 2011.⁵

The failure of Arab regimes to tackle corruption left many Arabs with a hopeless economic future and ultimately, through the subsequent demonstrations, to the creation of a regional order whose long-term results, despite more disappointing recent developments, remain to be seen. In a hope to understand this phenomenon, this paper aims to trace the political, cultural, and structural factors in the MENA region that contribute to the poor business ethics landscape, the very factors that led Mohamed Bouazizi to do what he did on a balmy summer night in Tunis. Furthermore, in identifying these systemic issues, this paper will provide solutions to the public and private corruption crisis in the region, with the goal of providing practical reforms for Arab governments and enterprises alike.

⁵ Ramdani, N. (2011, January 17). Greed of the Tunisian president's wife that drove a nation onto the streets to start a revolution. *The Daily Mail*. Retrieved from <http://www.dailymail.co.uk/news/article-1347626/Tunisia-riots-Presidents-wife-Leila-drove-nation-streets-start-revolution.html>

What are Business Ethics, Exactly?

Before delving into our discussion of business ethics in the Middle East, it is important to outline exactly what is meant by 'business ethics.' The phrase is composed of two integral parts, the first being 'business' and the latter, 'ethics.' The real opportunity for confusion lies in the latter term, which on its own can refer to a number of things. For our purposes, ethics refers to the field of philosophy that seeks to answer the question "what should I do?" In other words, ethics is the study of the *correct* or *moral* (which has its own set of connotations) decisions. What exactly constitutes *the right decisions* are, of course, subject to debate, but there are a number of ethical theories that help us discuss the nature of moral decision making. These theories form the basis of *normative ethics*, which seeks to explain the nature of ethical actions.

Virtue Ethics

One such theory is *virtue ethics*, the brainchild of Ancient Greek philosophers Plato and Aristotle, which focuses on virtues and the moral character of individuals.⁶ These virtues are traits that make one an exemplar of moral values, like courage, honesty, generosity, etc. Conversely, vices are to be avoided, as being in direct contrast with their virtuous counterparts. Virtue ethics also discourages extremes with respect to any specific character trait. With this in mind, virtue ethics purports that the moral or *correct* decisions are those that are consistent with virtues of strong moral character.

⁶ Hursthouse, R. (1999). *On virtue ethics*. OUP Oxford.

Utilitarianism

Utilitarianism refers to the ethical theory that holds moral actions as those actions that maximize happiness.^{7,8} Some utilitarians postulate that utilitarianism is not limited to the individual, but rather, to all actions that maximize happiness and minimize unhappiness for the greatest number of people. Utilitarianism is less about creating set moral rules (although rule utilitarians would disagree, see *supra* note 8) and more about weighing the costs and benefits of a particular action. Utilitarianism might then be considered a *consequentialist* ethical theory, in the sense that it is concerned more with the consequences of the act rather than the act itself.

Deontologicalism

Deontological theories stand in stark contrast with utilitarianism, particularly because they purport the existence of ironclad moral rules that denote what is ethical and unethical. For example, a deontological ethicist might argue that lying is wrong no matter what, even if a lie stands to maximize the happiness and minimize the unhappiness of the greatest number of people. One major formulation of deontologicalism is Kantianism,⁹ which stipulates that one should act in such a way that they would will it a universal law.¹⁰

⁷ Posner, R. A. (1979). Utilitarianism, economics, and legal theory. *The Journal of Legal Studies*, 8(1), 103-140.

⁸ There is an important distinction between two modes of thought in utilitarianism. 1. Act utilitarians will look at a particular act and weight the benefits and costs of the act. If they find that the benefits outweigh the costs and that happiness is maximized, then they would indeed hold the act as being ethical 2. Rule utilitarians instead define a set of moral rules that will maximize happiness and then use these rules to weigh the value of a particular action.

⁹ Named for its founder, Immanuel Kant.

¹⁰ Alexander, L., & Moore, M. (2007). Deontological ethics.

This golden rule of sorts helps to create the very moral rules that deontologicalism purports to exist.

These theories, although certainly not exhaustive, illustrate the difficulty of assigning normative answers to questions of ethics. Nonetheless, they form the basis of contemporary ethical debates, and ultimately, bring color to understanding ethics in the business context. Without understanding the underlying principles that support ethical decision making at the firm and managerial level, it is easy to get muddled in debates of ethics as a *matter of opinion*, when in reality there are clear moral choices available.

Whether an action is moral for utilitarian reasons or as a universal truth is somewhat irrelevant in the business world: firms and managers often have many competing responsibilities to a number of different stakeholders and it is incumbent upon them to take actions that recognize this unique position.

Given this, most conceptions of 'business ethics' place a particular emphasis on the role of business in the community, which extends to both internal and external stakeholders.¹¹ In many respects, this "community focus" of business ethics is the product of *stakeholder theory*, which argues that businesses have a responsibility to not just their shareholders, but to other parties affected by the activities of the business, such as employees, community members, government, etc.^{12, 13} Decades after it was first introduced, stakeholder theory has achieved widespread acceptance in academic and professional circles as an effective mode of promoting ethical decision making at the firm

¹¹ Wicks, A. (2003). A Note on Ethical Decision-Making. Darden Case No. UVA-E-0242. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1278345

¹² Donaldson, Thomas, and Lee E. Preston. "The stakeholder theory of the corporation: Concepts, evidence, and implications." *Academy of management Review* 20.1 (1995): 65-91.

¹³ Stakeholder theory was first outlined by R. Edward Freeman in his highly influential 1984 book, *Strategic Management: A Stakeholder Approach*.

level. At the same time, confusing stakeholder conscious decision making for business ethics in a broad sense is a mistake. For instance, there is a tendency for some firms to confuse business ethics with a publicized Corporate Social Responsibility (CSR)¹⁴ strategy, but in the process only support token causes. In reality, analyzing business ethics necessitates a top-to-bottom view of an organization. In particularly large firms, thousands of important decisions are made every day, at the entry level all the way up to the C-suite. This heightens the importance of firm culture, internal controls, and the ethical leadership of managers, among other key players in the organization.

Business ethics might then be summarized as the study of how firms and their constituent members make what they believe are the *right* decisions amidst a web of competing interests and goals. Firms are quite often confronted with scenarios that pit the interests of shareholders against some other stakeholder group. However, what might constitute an 'ethics conscious firm' is the ability of the firm to weigh both the consequences and the principles around a business decision.¹⁵ There is no set formula for achieving this dynamic in the corporate setting, but decision-makers in the firm should be asking important ethical questions as they weigh their options for action.

Why might a firm care about the moral and ethical weight of their decisions if their overarching purpose is to maximize value for shareholders? For one thing, there is a dearth of literature and studies that point to a link between commitment to ethical values and

¹⁴ Although it predates stakeholder theory (see *supra* note 13), the widespread adoption of CSR is an outgrowth of the increased emphasis on corporate responsibility beyond shareholder value. Today, many companies publish CSR reports in addition to traditional financial statements.

¹⁵ This approach bridges consequentialist and deontological approaches to ethical decision making (see *supra* pg. 9). The idea behind this mixed-approach is to highlight that there is not exactly a *right way* of getting to an ethical decision, but rather that the firm should at least be thinking about ethical concerns in its decision making process.

financial performance.¹⁶ Additionally, in the age of the more active 'ethically conscious consumer,' ethical scandals can create a public relations disaster that severely impacts the firm's financial position. News stories about a firm's unethical practices may reduce investor and consumer confidence in the leadership of the firm, resulting in losses to the firm's value.¹⁷ In fact, a common theme in business ethics is the so-called "front page test," which encourages business decision makers to consider whether or not they would feel comfortable with their actions being reported on the front page of a newspaper.¹⁸

With this in mind, the factors that might make a firm or business decision ethical may differ in accordance with societal and cultural values. However, there are certain maxims that are in fact universal to the practice of trade. For instance, intentional fraud, dishonesty, and intent to do harm, among many other principles should be common to all businesses. Often times, the *right* action should be clear, but it is the gray areas that make the study of ethics so interesting and important. For the purposes of this paper, business ethics is used in a broad sense - the general degree to which firms and individuals engage with ethical questions in the decision making process. As we will discover, the poor business ethics environment in the Middle East and North Africa has a pointed impact on the success of individual firms, as well as on regional development as a whole.

¹⁶ Verschoor, C. C. (1998). A study of the link between a corporation's financial performance and its commitment to ethics. *Journal of Business Ethics*, 17(13), 1509-1516.

¹⁷ A case-in-point is the 2016 Wells Fargo scandal, in which the firm's culture and management practices were blamed for pressuring employees to open unauthorized accounts for their clients in order to collect additional fees. The scandal resulted in a \$25 billion loss in Wells Fargo's market cap, thousands of employees fired, and the resignation of CEO John Stumpf. McIntyre, D. (2016, October 1). Well Fargo Loses \$25 Billion in Market Cap. *24/7 Wall St*. Retrieved from <http://247wallst.com/banking-finance/2016/10/01/well-fargo-loses-25-billion-in-market-cap/>

¹⁸ Logsdon, J. M., & Wood, D. J. (2002). Business citizenship: From domestic to global level of analysis. *Business Ethics Quarterly*, 12(02), 155-187.

Historical Survey of Business in the Middle East I: A Model of “Disjointed Development”

Understanding the current business landscape requires taking a step back to examine the path that led to the present state. Although it is certainly the case that the Middle East lagged behind industrialized Western states with respect to economic development, it is a mistake to assume that little economic infrastructure was in place in the region prior to the discovery of oil in the early 20th Century. In fact, much of the Middle East, then under the control of the Ottoman Empire, began to integrate features of the new, merchant-oriented economic system that coincided with the rise of modern nation-states as early as in the 16th and 17th centuries.¹⁹ This included an increased emphasis on industrial output and trade, encouraging the movement of rural *fellahin* (peasants) to urban areas for greater economic opportunities. Yet at the same time, economic modernization in the resource scarce Middle East failed to produce results anywhere near what was experienced in the Western bloc, particularly as the Ottoman Empire began to collapse in the late 19th and early 20th centuries.

The subsequent decentralization of power in Arab lands allowed local rulers to enact sweeping real estate consolidation programs, as well as unchecked tax and regulatory policies, leaving much of the region’s wealth consolidated in the hands of a wealthy, urban elite class.²⁰ To compound the problems faced by merchants and farmers of the region alike, the advent of European imperialism following the Ottoman Empire’s demise generated colonial states that further consolidated economic power in the hands of an elite upper class, a precursor to the

¹⁹ Gelvin, J. (2016). *The Modern Middle East: A History* (4th ed.). New York, NY: Oxford University Press.

²⁰ Ibid. 108-109

subsequent authoritarian regimes that would come to dominate the Middle East.²¹ The results were ultimately disastrous for the region's long-term sustainable development, normalizing the construction of societies where economic goods became a tool for patronage and maintaining the status quo, rather than promoting innovation and widespread economic opportunity. Business, as it manifested at the time, was largely centered on the promotion of the interests of the state and the economic elite, slowing the growth of critical economic institutions necessary to support a vibrant market economy.

These developments were accompanied by a dramatic increase in the worldwide demand for oil, turning the many fledgling, post-colonial Arab states into lucrative options for foreign drilling companies.²² The rapid increase in oil exports filled the coffers of local rulers, but left them few incentives to promote economic diversification. By the late 1950s and early 1960s, the Middle East had been transformed into a mix of nationalist autocratic states that relied chiefly on patronage to maintain power and oil-fueled autocratic states that used their newfound wealth to place a bandage over tribal and sectarian divisions. Additionally, many Arab states enacted socialist policies that distorted market forces and made both starting and maintaining a business a supremely challenging endeavor. These turbulent historical shifts had the effect of leaving little room for the formation of a traditional market system, the creation of free and fair courts, and the maturity of the corporate form. Instead, what was left behind was a system that, although awash with wealth, promoted corruption and cronyism: a so-called "model of disjointed development," where advancing of some segments of society was prioritized over overall regional health.

²¹ Richards, A., Waterbury, J., Cammett, M., & Diwan, I. (2015). *A Political Economy of the Middle East* (4th ed.). Boulder, CO: Westview Press.

²² Ibid. 289-291. Gelvin.

Historical Survey of Business in the Middle East II: The Role of Globalization

While a long-view of the region's developmental history certainly yields insights into the region's structural challenges, more recent developments help place the current business ethics environment in context. The importance of recent history is connected largely to the rise of economic globalization and integration, a phenomenon with a complicated relationship to the modern Middle Eastern political economy. As such, globalization and its impact on the Middle East will be a central theme in this paper.

Few geopolitical forces have radically transformed the world economy as much as globalization, and yet, there remains disagreement as to what it precisely means. In his article for *Government and Opposition*, Colin Hay discusses the importance of defining globalization in a narrow sense, to ensure that it is understood as “an outcome of causal processes rather than a causal process in its own right.”²³ He further highlights a definition heralded by David Held, Anthony McGrew, David Goldblatt, and Jonathan Perraton in their article *Global Transformations*, that is fairly adept for the purposes of this historical survey: “globalization is a process (or set of processes) that embodies a transformation in the spatial organization of social relations and transactions, generating transcontinental or inter-regional flows and networks of activity, interaction and power”²⁴ This definition, as Hay argues, goes beyond just regional political developments, European integration a prominent example, but encompasses the scope of new economic networks created by trade liberalization and technological advancements.²⁵

²³ Hay, C. (2006), What's Globalization Got to Do with It? Economic Interdependence and the Future of European Welfare States. *Government and Opposition*, 41: 1–22. doi:10.1111/j.1477-7053.2006.00168.x

²⁴ Held, D., McGrew, A., Goldblatt, D., Perraton, J. (1999). Contents and Introduction in *Global Transformations: Politics, Economics, and Culture*. Stanford: Stanford University Press, 1-31

²⁵ Ibid, 4.

With this definition in mind, we can firmly see the hand globalization played in Middle Eastern development, particularly in the last 25 years.

However, before analyzing the role of globalization in the MENA region's economic history and ultimately, its relationship with economic corruption, it is important to understand why globalization has taken center stage in corruption and business ethics scholarship. By connecting developing countries with states whose political and economic structures were still in their infancy, globalization forces helped bring explosive growth to emerging markets. However, the increased cross-border transaction activity and flurry of foreign direct investment also invited opportunity for political and economic abuse. With weak regulatory regimes and even weaker enforcement mechanisms, developing states had little capabilities with which to detect and combat corruption in the wake of economic growth. Uncontrolled growth opened a backdoor to abuses of power, contributing to the formation of a poor business ethics environment in the developing world.

Of course this theory is just among many other competing ideas about the relationship between globalization and economic corruption. In their article for *The International Journal of Business and Finance Research*, Jayoti Das and Cassandra DiRienzo examined the impact of globalization on corruption, highlighting the apparent paradox between two competing theories - that "some researchers have argued that globalization has increased the opportunity for corrupt practices, while others state that globalization has led to a decrease in corruption as countries wishing to join the global economy must comply with international anti-corruption rules and regulations."²⁶ In analyzing the relationship between corruption and globalization, Das and DiRienzo's found that "the highest corruption levels are realized at moderate or transitioning

²⁶ Das, Jayoti and DiRienzo, Cassandra, *The Nonlinear Impact of Globalization on Corruption* (2009). *The International Journal of Business and Finance Research*, Vol. 3, No. 2, pp. 33-46, 2009. Available at SSRN: <https://ssrn.com/abstract=1634083>

levels of globalization,” but as developing countries become more compliant with tougher regulations and anti-corruption mechanisms, the relationship begins to level off.²⁷ These findings bolster my initial claims, and are particularly relevant in the MENA context, which underwent its own period of globalization transition in the 1980s and 90s.

Beyond the potential role globalization played in expanding opportunities for political and economic corruption, there are other, more practical reasons that globalization has taken center stage on corruption scholarship. By its very nature, the process of globalization increases the interconnectedness of economies, multiplying the degree to which events in one system can affect the functioning of another. In their paper *The Globalization of Corruption* for the Peterson Institute for International Economics, Patrick Glynn, Stephen Korbin, and Moises Naim examine the role of globalization in increasing interest in corruption as a field of study, writing that the “broadening and deepening of global economic integration increases the probability that the effects of corruption will spill over and resonate throughout the world economy,” and further that “the emergence of an electronically networked international financial system markedly enhances opportunities for corruption, the difficulty of controlling it, and the potential damage it can inflict.”²⁸

In response to heightened concerns about corruption, many Western states developed tough anti-corruption statutes. For example, the United States enacted the Foreign Corrupt Practices Act in 1977, which prohibits U.S. companies from bribing public officials in foreign countries.²⁹ With pressure from the American government, other countries began following suit in the 1980s and 1990s, when a global enforcement regime of anti-corruption measures began to

²⁷ Ibid. 42.

²⁸ Glynn, P., Korbin, S. J., & Naim, M. (1997). The globalization of corruption. *Corruption and the global economy*, 6, 10-17.

²⁹ Sebelius, N. (2008). Foreign Corrupt Practices Act. *American Criminal Law Review* 45(2), 579-606. Chicago

take form. Despite this trend, many countries, including those in the developed world, still lacked the legal and regulatory regimes to combat corruption and promote equitable business practices. This included Germany, which even allowed its firms to “deduct foreign bribes from German taxes if those bribes were necessary to win business.”³⁰ It was not until the late 1990s, when the Organisation for Economic Cooperation and Development (OECD) and the World Bank adopted stringent corruption and ethics standards in direct response to the poor enforcement of piecemeal domestic initiatives, that stronger rules were put in place.³¹ Yet as the developed world become better equipped to combat corruption in the age of globalization, developing states still lacked the tools and frameworks necessary to ensure that the flurry of economic activity in their countries would not succumb to the forces of abuse. Herein lies the paradox highlighted by Das and DiRenzo; the greater the degree of economic development, the more likely a state is to see controlled or reduced corruption activity, but growing economies create greater opportunities for corruption as they transition to development. The result is profound: the strong anti-corruption measures developed in the 1980s and 1990s did little to control the systemic risk for corruption where it was most present: the developing world.

In addition to ushering in an age of unprecedented cross-border economic activity and economic interconnectedness, globalization also encouraged states to pursue aggressive trade liberalization policies. The rise of sprawling multinational corporations pressured policymakers to reduce trade barriers and promote international economic activity. Although many economists agree that the overall economic benefits of trade liberalization exceeded the costs, the uneven

³⁰ Baron, D. (2008). *Siemens Anatomy of Bribery*. Case No.P68. Stanford, CA: Stanford Graduate School of Business

³¹ Huther, J., & Shah, A. (2000). *Anti-corruption policies and programs: a framework for evaluation* (Vol. 2501). World Bank Publications.

impact on different industries and countries is well documented.³² Most notably, wealthier, more developed nations saw a sizable percentage of their low wage labor shifted to developing nations, as it became less costly to produce in states with cheaper labor markets and less regulation. This era of free trade and globalization was ultimately a boon for Asian countries in particular, which quickly positioned themselves as attractive places for manufacturing and goods production. As a result, East Asian countries achieved the highest rate of growth of GDP per capita than any other region post 1960, exceeding even OECD states.³³ Given the success East and South Asian countries experienced in the era of free trade, one would expect to see a similar pattern in regions that followed the East Asian model of development, but as we will see, this was especially not the case in the Arab world.

Enter the Middle East and North Africa in the late 1970s and early 1980s, then on the cusp of major economic and policy changes. Oil prices increased dramatically during this period, increasing the economic importance of the region and enriching the oil producing Gulf states, but new investment was heavily concentrated within the industry and in its export hubs, neglecting other opportunities for growth. During this period, Arab policymakers recognized the threat of a failure to adapt to the rapidly globalizing world marketplace, carrying out sound fiscal and monetary policies to make the region more attractive for economic expansion and FDI.³⁴ Yet at the same time, the region became mired in a series of military conflicts, including but not limited to the Iraq-Iran War and the Lebanese Civil War, which effectively handicapped economic growth in the region. Additionally, a failure by Arab governments to diversify from oil exports stunted manufacturing growth, creating a massive gulf between the absolute size of the region's

³² "Fast Track Authority." *IGM Forum*. The University of Chicago Booth School of Business, 11 Nov. 2014. Web. 23 Aug. 2016. <http://www.igmchicago.org/igm-economic-experts-panel/poll-results?SurveyID=SV_d68906VNWqVmiGN>.

³³ Noland, M., & Pack, H. (2007). *The Arab economies in a changing world*. Peterson Institute.

³⁴ Ibid. 159

manufacturing exports relative to other developing regions.³⁵ Where Saudi Arabia's per capita GDP was higher than Taiwan's in the 1950s, today it is half, illustrating the lack of sustained economic growth that has plagued the region for decades.³⁶ Furthermore, as Bernard Hoekman and Ahmed Galal argue in their book *Arab Economic Integration: between hope and reality*, the failure of Arab governments to develop integrated political and economic regions similar to those seen in Europe and elsewhere hampered the pace of trade liberalization and encouraged inwardness instead of cooperation.³⁷ At a time when the world became increasingly linked through political, economic, and social ties, the Middle East countries remained isolated relative to other regions.

Given these developments, it appears on the surface that the globalization moment may have skipped over the Middle East. What effect, if any, could globalization then have on corruption and business ethics in the Middle East? Of course, the above picture of globalization's place in the Middle East is an incomplete one; certainly, macro-level indicators tend to support the conclusion that the Middle East failed to adequately prepare for the increasing interconnectedness of the global economy, but at the same time, globalization affected the scope and size of Middle Eastern businesses in a profound way. As discussed earlier, there was an abject failure by Arab states to diversify away from oil exports, but this did not leave the region untouched from the forces of globalization. This largely manifested in the corporatization of state-owned industries, along with an increasing pace of privatization. However, in the context of "disjointed development," wherein much of the region's wealth remained concentrated in the ruling political class, the increasing scale of state businesses mainly supported the ballooning

³⁵ Ibid. 101-102

³⁶ Galal, A., & Hoekman, B. M. (Eds.). (2003). *Arab Economic Integration: between hope and reality*. Brookings Institution Press.

³⁷ Ibid. Galal & Hoekman.

wealth of the urban elite. Small and medium sized businesses (SMEs), which continue to dominate the Middle Eastern business landscape, were thus at a disadvantage. Additionally, the 1980s and 90s should have also seen a rise in firm competitiveness, especially as Arab states adopted free market principles in an effort to join the wave of trade liberalization sweeping the globe. However, as Samiha Fawzy discusses in the World Bank's publication, *Globalization and Firm Competitiveness in the Middle East and North Africa Region*, "many firms in MENA continue to be dominated by individuals, they lack good corporate governance, they compete based on price alone, and they lack up-to-date managerial and technological resources."³⁸ The failure to develop competitive markets has left Middle Eastern corporations susceptible to mismanagement and even more concerning, the specter of corruption and political patronage. Furthermore, the rise of large distribution, real estate, and holding companies squeezed out the growth potential of small and medium sized businesses, whose troubles in the MENA region will be well documented in this paper. Given this historical trajectory, it appears that although globalization did in fact leave its mark on the region, it did so rather superficially, leaving cronyism in place of competitiveness and diversification. The result is a modern Middle Eastern economy that lacks the kinds of corporate governance standards or political mechanisms to enforce regulations.

The effects of this historical legacy are central to understanding the present business landscape in the MENA region. During a period where Western businesses and corporations developed into their modern forms, Arab businesses were struggling to find a place among the instability and corruption. And although some of the Arab states have experienced growth across

³⁸ Fawzy, S. (2002). *Globalization and firm competitiveness in the Middle East and North Africa region*. Washington, D.C.: World Bank.

a number of industries and glistening skyscrapers continue to top out in the capitals of Gulf Cooperation Council (GCC) member-states, many of the structural problems that emerged over the last few hundred years remain looming below the surface. Through the anger expressed in the Arab Spring, we can see clearly that the region's history of uneven development continues to plague its business environment, making it all the more urgent that such problems are addressed as a matter of state and societal policy.

Corruption and the MENA Region

Defining Corruption: A Narrow Construction or a Spectrum?

Although the intuition behind corruption is relatively simple - that it describes the abuse of power to achieve a contra-legal or contra-ethical private gain - its nature is such that it escapes a simple definition. Corruption manifests itself in a myriad of ways, including, but not limited to bribery, embezzlement, fraud, nepotism, and extortion. It can further be separated into categories of public or private abuse and differentiated on macro and micro levels. The most prominent international anti-corruption watchdog, Transparency International, categorizes corruption into three broad buckets: grand corruption, which describes “acts committed at a high level of government that... [enable] leaders to benefit at the expense of the public good,” petty corruption or abuses committed by low and mid-level officials, and political corruption, which refers to an institutionalized set of policies that perpetuate the wealth and advantage of those in power at the expense of those not.³⁹ These categories are indeed useful in analyzing the impact of corruption

³⁹ Transparency International - What is Corruption? (2017). Retrieved from <http://www.transparency.org/what-is-corruption>

in regional contexts, and as I will argue later, the latter two are particularly problematic in the MENA region. Yet in the same step, they are inadequate in encapsulating the wider scope of corruption. Part of what makes a singular definition of the concept so difficult is that it takes on different meanings in different contexts. Cultural differences, for example, may dictate that what qualifies as corruption in one society is in fact be acceptable in another. This phenomenon is particularly observed in the Arab world, where, for example, the concept of *wasta*, which encourages the use of personal connections for private gain, often at the expense of normal operating procedures, is seen as a relatively benign aspect of doing business. This contrasts greatly with Western norms, which would likely consider *wasta* transactions as contrary to both law and business ethics.

This example highlights the need to avoid a narrow definition for corruption. In fact, a case could be made that corruption should be instead viewed as a spectrum, subject to cultural, legal, and political norms in a regional context. That is not to say that corruption should be viewed as relative to each culture, but rather that it requires a more nuanced understanding in specific contexts. The implication is that the much of the research produced on corruption in the last few decades, particularly in developing regions, has suffered from an almost pigeonholed focus on easy to measure indicators, which may have varying significance in different cultures and regions.

There is no shortage of articles and empirical research papers that track, for example, the relationship between bribes and economic growth or the impact of bribery on foreign direct investment. In his book, *Syndromes of Corruption*, Michael Johnston argues that such observers have a tendency to treat “bribery - usually involving international aid and trade, and often at high

levels - as a synonym for corruption in general.”⁴⁰ He extends his criticism to other dominant trends in international corruption analysis, like the reliance on corruption perception measures, most notably, Transparency International’s Corruption Index (CPI). Although useful in many cases, he explains, such indices, which often ask respondents particularly about the degree to which bribery affects the local business environment, treat bribery “as a particular kind of *quid pro quo* set apart by its illegitimate nature but otherwise open to analysis as just another process of exchange.”⁴¹ This focus on easy to measure *quid pro quo* corruption tells only a part of the story, emphasizing bribery at the expense of other important corruption factors. Johnston continues, explaining that “in some corrupt exchanges, such as patronage and nepotism, considerable time may elapse between receiving the *quid* and repaying the *quo*, and the exchange may be conditioned by many factors other than immediate gain.”⁴² This point is particularly salient in the MENA context, where patronage and nepotism (see *supra* ‘*wasta*’) play a significant role in maintaining political and economic order.

Is it not inadequate then, to measure only those easily identifiable examples of exchange, which may even have a reduced significance in the regional business and political climate? As such, this paper will examine the full slate of political, cultural, and structural forces that perpetuate the poor business ethics climate in the Middle East. This approach recognizes that corruption cannot be easily defined or identified, but rather that it must be viewed in full view of the regional business environment. That being said, there is value in taking stock of the broad indicators of corruption, particularly for placing the MENA region in a comparative context. In a future chapter (see **Corruption in the Middle East and North Africa**), I review the existing

⁴⁰ Johnston, M. (2005). *Syndromes of corruption: Wealth, power, and democracy*. Cambridge, UK: Cambridge University Press.

⁴¹ Ibid. 20-21

⁴² Ibid. 21

data on corruption in the Arab world, with an emphasis on how aforementioned petty and political forms of corruption impact internal and external corruption perceptions of the Middle East. In doing so, we can understand the principal drivers of corruption in the region, and ultimately, the impact on investment, growth, and stability.

Why Study Corruption?

Although this paper aims to analyze the business ethics landscape in the MENA region, it also places a heavy emphasis on the role of corruption in Middle Eastern economic development. It is true that corruption is not a perfect mode of analysis for understanding a business ethics landscape, and as discussed earlier, the degree to which corruption itself is measurable poses some difficulties. However, it is the most tangible way to assign quantitative data with which to compare the region against its counterparts. Beyond this more practical impetus, the sharp effects of corruption on both political and economic society merit a deeper discussion of its pervasiveness.

Corruption accelerates the transfer of wealth to concentrated hands. It undermines the faith of people in both their economic and political institutions. It stifles economic growth and investment. It robs entrepreneurs of their dreams and discourages youth from even starting their own. It fills the squares with demonstrators and can topple even the most entrenched of dictators. This is the story of how corruption depresses the quality of economic and political systems; it is the story of the Middle East & North Africa, a region that encapsulates the damaging effects pervasive corruption can inflict. Corruption indeed only represents a piece of the region's problems, but its reaches are very impactful on cultural, political and economic levels.

The Relationship Between Corruption and GDP Per Capita

One way to examine the impact of corruption is to analyze its relationship with economic output. In simple terms, this analysis explains the correlation between corruption and the relative economic productivity of a state. This model looks specifically at the potential correlation between corruption level and GDP per capita, a common measure used to compare the relative strength of economies. In order to quantify this relationship, we can test a model for the true relationship between corruption and GDP per capita, denoted as follows:

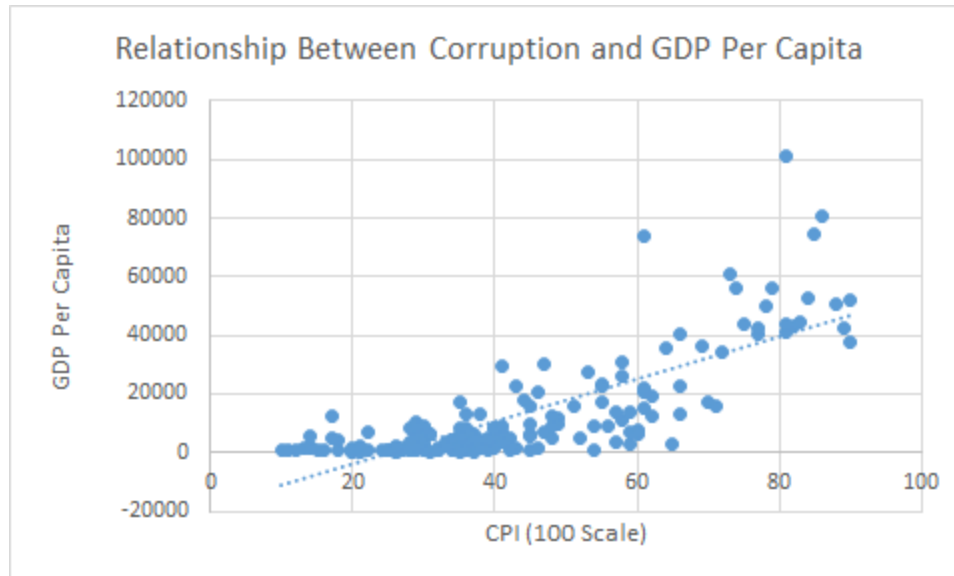
$$y = \beta_0 + \beta_1x + \epsilon$$

Where y = GDP per capita, β_0 = intercept, β_1 = Corruption Level, X = slope, ϵ = random error.

The model relies on data for the most recent GDP per capita numbers for 176 countries from the World Bank and Transparency International Corruption Perception Index 2016 scores (higher scoring countries have lower perceived corruption levels). Using this data, we can construct a sample model to estimate the relationship:

$$y = b_0 + b_1x$$

Running a regression analysis using the above model and the associated data yields the following results:



All data sourced from World Bank and Transparency International^{43, 44}

The results of the regression analysis reveal a positive correlation between a higher CPI score (meaning lower corruption level) and GDP per capita. This finding resonates with our expectation that the greater the level of economic development in a given country, the more likely corruption will be controlled (see **Historical Survey of Business in the Middle East II: The Role of Globalization**).

We can also use the data from the regression analysis to confirm the significance of the relationship between GDP per capita and corruption level: *

⁴³ World Bank. (2016). GDP per capita, PPP (current international \$). Retrieved from <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>

⁴⁴ Transparency International. (2017, January 25). Corruption Perceptions Index 2016. Retrieved from http://www.transparency.org/news/feature/corruption_perceptions_index_2016

<i>Regression Statistics</i>	
Multiple R	0.78875482
R Square	0.62213417
Adjusted R Square	0.61994997
Standard Error	11023.0879
Observations	175

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	34609798648	34609798648	284.8344627	2.10648E-38
Residual	173	21020964630	121508466.1		
Total	174	55630763278			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-18643.1538	2037.369242	-9.150601389	1.55361E-16	-22664.45483	-14621.9	-22664.4548	-14621.8528
	15 727.869276	43.12778172	16.87703951	2.10648E-38	642.7448969	812.9937	642.7448969	812.993656

*The test statistics show significance for the slope at the 95% CI level, indicating some positive relationship between lower corruption levels and GDP per capita.

This model, although simple in scope, highlights the important role corruption plays in the course of economic development. And yet, it provides little detail as to what is driving the relationship, but with the help of existing literature, we might unpack the nature of this correlation.

Corruption as a Constraint to Growth, Stability, and Security

Michael Johnston, one of the foremost experts on corruption in developing regions, describes the relationship between corruption and the aforementioned factors as “syndromes,” and argues that “corrupt transactions, via the signals they send and incentives they confer, can ripple through an entire economic or political system.”⁴⁵ Johnston correctly believes that corruption cannot be viewed in isolation; a focus on its immediate impacts ignores the grander consequences it can have on a nation’s healthy development.

⁴⁵ Ibid. 24. Johnston.

Johnston also cites the work of corruption experts like Susan Rose-Ackerman of Yale Law School, among others, who argue that corruption and bribery distort the role of supply and demand in determining market-clearing prices.⁴⁶ This results in market inefficiencies that disrupt the normal flow of business and trade, depressing economic growth. It is common belief in academic and economic circles that free and fair markets are the bedrock of economic development and growth. This so-called “Washington Consensus,” a mode of policies that has dominated developmental economics since the 1990s, calls for across the board economic and trade liberalization to promote global growth. A report by the United Kingdom Department for International Development highlights the spirit of the Washington Consensus, calling for “institutions that encourage private investment and export growth: free and fair markets; sound macroeconomic management; clearly and consistently applied policies, regulations and laws; secure property rights; and functioning commercial courts.”⁴⁷ Furthermore, institutions like the International Monetary Fund (IMF) and the World Bank often require developing nations to adopt pro-market policies, including free-trade and growth inducing regulatory policies as a precursor to receiving international financing. As a result, developing nations are incentivized to enact free market and pro-growth economic policies.

In theory, these “best practices” should help improve the economy, as well as the confidence investors and citizens alike hold in their policymakers. However, if, as Rose-Ackerman furthers in her work, rampant corruption distorts the viability of the very market forces these policies seek to produce, to what degree will they be successful in achieving

⁴⁶ Rose-Ackerman, S., & Palifka, B. J. (2016). *Corruption and government: Causes, consequences, and reform*. Cambridge university press.

⁴⁷ UK Department for International Development. (2014). *Economic development for shared prosperity and poverty reduction: a strategic framework*. Retrieved from <https://www.gov.uk/government/publications/economic-development-for-shared-prosperity-and-poverty-reduction-a-strategic-framework>

economic development? Furthermore, if said policies fail to achieve their desired effect, to what degree will people lose faith in their government? In the policies themselves? These dire consequences cannot and should not be understated; good-natured attempts at economic reform without accompanying anti-corruption measures can lead to public resentment and perhaps even more concerning, a reversion to the kinds of policies that inhibit growth and encourage cronyism. In this sense, corruption acts as spoiler, both hampering the prospects for true development and undermining confidence in otherwise fundamentally sound government policies.

Corruption plays a similar role in limiting the attractiveness of investment. Many developing states are keen on attracting foreign direct investment, which can open up growing economies to lucrative foreign markets and greater access to capital. FDI is another cornerstone of the Washington Consensus, part of the larger movement towards trade liberalization and globalization.⁴⁸ Yet, as discussed in the chapter **Historical Survey of Business in the Middle East: the Role of Globalization**, the development paradox, wherein emerging states that liberalize their economic policies see associated rises in corruption, affects the efficacy of FDI in achieving tangible growth. As Mohsin Habib and Leon Zurawicki discuss in their article *Corruption and Foreign Direct Investment* for the *Journal of International Business Studies*, corruption has a negative impact on foreign direct investment, likely because “foreign investors generally avoid corruption because it is considered wrong and it can create operational inefficiencies.”⁴⁹ Although Habib and Zurawicki found that corruption might not affect FDI in “absolute terms,” with countries like China and others with significant corruption problems, still attracting a large amount of FDI, they found a negative relationship between corruption and FDI

⁴⁸ Birdsall, N. (2008). *The White House and the world: a global development agenda for the next US president*. CGD Books.

⁴⁹ Habib, M., & Zurawicki, L. (2002). Corruption and foreign direct investment. *Journal of international business studies*, 33(2), 291-307.

through more subtle indicators.⁵⁰ More specifically, they examined the difference in corruption between home countries and FDI recipient host countries, finding both a negative effect of corruption on FDI as well as a reduced likelihood for foreign firms to make investments in countries perceived more corrupt than their own.⁵¹ These findings highlight the degree to which corruption can limit the attractiveness of a foreign market to investors from developed economies. The consequences can be dire for developing countries, particularly those in the Middle East, which don't have the same cache with international investors as say China or India, and are thus more likely lose out on access to capital inflows that might otherwise spark economic growth.

The Habib and Zurawicki study also raises interesting questions as to the very nature of firm behavior. That is - do notions of morality affect firm decision making processes? And more importantly, do firms factor ethical decision making into financial performance? These questions strike at the very heart of corruption's depressing effect on economic growth. As much importance placed on corruption's relationship with macro level indicators should be applied to its impact on the firm level: Are firms more likely to invest, or even improve in performance when the business ethics environment is strong rather than weak? Although scholarship is admittedly lacking on this issue, a group of Korean business researchers published an article in the *Journal of Management* titled *How Does Corporate Ethics Contribute to Firm Performance? The Mediating Role of Collective Organizational Commitment and Organizational Behavior*, looking for links between ethics and firm performance.⁵² By looking at the internal practices and financial activities of 130 Korean businesses, they found that strong organizational practices

⁵⁰ Ibid. 291

⁵¹ Ibid. 303

⁵² Chun, J. S., Shin, Y., Choi, J. N., & Kim, M. S. (2013). How does corporate ethics contribute to firm financial performance? The mediating role of collective organizational commitment and organizational citizenship behavior. *Journal of Management*, 39(4), 853-877.

were related to improved financial performance.⁵³ This relationship might explain firm behavior in the face corruption, as supported by the Habib and Zurawicki study. A hostile business ethics environment might not just contradict the firm's morals, but its ability to maintain strong financial performance as well. Implicitly, pervasive corruption can do damage to a firm's internal culture, which might be integral to the firm's competitive advantage. Unique internal cultures are costly for firms to both develop and maintain and as a result, firms might be less willing to risk investing in countries with high corruption levels.

At the same time, the researchers also note that

The relationship between firm performance is indirect. In emerging markets such as Korea, the firms' objectives and strategies tend to be directed toward maximizing profit and efficiency rather than running business ethically. Given that corporate ethics and managerial transparency are deemed less important in developing countries with shorter histories of economic development than in developed ones (Blackburn, Bose, & Haque, 2006), the direct connection between corporate ethics and firm performance might be weak in the emerging economy (Sandholtz & Koetzle, 2000).

This idea does not necessarily contradict the prior hypothesis. On the contrary, it highlights the idea that firms in emerging economies should aspire to the kinds of ethical decision making models encouraged in more developed economies.

Returning to corruption's impact on a macro-level, Park Hung Mo looked at the overall effect of corruption on growth rates in his article *Corruption and Economic Growth* for the *Journal of Comparative Economics*.⁵⁴ Po argues that corruption cannot be viewed in isolation of

⁵³ Ibid. 870

⁵⁴ Mo, P. H. (2001). Corruption and economic growth. *Journal of comparative economics*, 29(1), 66-79.

its effects on core societal institutions; prior theories that emphasized the ability of corruption to speed companies through inefficient and bureaucratic regulatory regimes neglect such effects. Through a statistical model that incorporates the impact of corruption on political and investment channels, Park found that a 1 percent increase in corruption levels decreases economic growth by as much as .72 percent.⁵⁵ Given the wealth of data highlighting corruption's role in depressing economic growth, the results of Park's statistical analysis are less than surprising, but his study raises other interesting issues. For example, he found that "the most important channel through which corruption affects economic growth is political instability, which accounts for about 53% of the total effect."⁵⁶ This finding is critical to understanding the impact of corruption on the degree to which a local environment is hospitable to business interests, which is of particular relevance in the Middle East.

News headlines across the world constantly highlight the political instability that blankets the Middle East and other developing nations, many of which are engulfed in political violence and discontent. It is no secret that political instability poses a significant risk to business growth and potential; uncertainty about the future can play a major role in discouraging growth and investment. A study by Shang-Jin Wei of the Harvard Kennedy School of Government confirms this phenomenon by looking at the role corruption induced uncertainty has on FDI, finding that "The effect is negative, statistically significant, and quantitatively large. An increase in the uncertainty level from that of Singapore to that of Mexico, at the average level of corruption in the sample, is equivalent to raising the tax rate on multinational firms by 32 percentage points."⁵⁷

The bottom line is that profit-seeking firms will look for ways to manage risk - one way of doing

⁵⁵ Ibid. 66.

⁵⁶ Ibid. 66.

⁵⁷ Wei, S. J. (1997). *Why is corruption so much more taxing than tax? Arbitrariness kills* (No. w6255). National Bureau of Economic Research.

so is by avoiding the uncertainty that certain business lines or markets pose. Corruption that undermines faith in political institutions and promotes political instability can seriously hamper the attractiveness of doing business, and with the host of political and religious divisions plaguing the Middle East, the region has little room for the uncertainty induced by corruption constraints. The Wei study also again demonstrates the ways corruption undercuts the policies promoted by the Washington Consensus. It suggests that well-meaning policy-makers could do all the right things on paper – pro growth regulations, liberalized trade policies, reduced state subsidies etc., and still fail to attract large investments. Political stability bolsters both the legitimacy of state institutions, as well as the efficacy of government policies. As such, policymakers should seek to enact those policies that will support political stability and mitigate uncertainty, which will often mean developing strong anti-corruption statutes.

One way that regimes in developing countries promote political stability is by creating an aura of legitimacy, be it through patronage, propaganda, or other methods of state control. However, the threat that corruption poses to the legitimacy of state institutions suggests that this approach may not be sufficient for controlling uncertainty. A study by University of Pittsburgh Professor Mitchell Seligson, which surveyed thousands of residents in four South American countries, found that “exposure to corruption erodes belief in the political system and reduces interpersonal trust.”⁵⁸ By eroding the trust between the governing and the governed, corruption has the effect of delegitimizing pivotal state institutions - the very institutions designed to enforce government policy and maintain a semblance of political and economic stability. This is especially problematic for more autocratic regimes, which are disproportionately represented in the developing world and rely heavily on the use of state power to maintain social order.

⁵⁸ Seligson, Mitchell A. "The impact of corruption on regime legitimacy: A comparative study of four Latin American countries." *The Journal of Politics* 64.2 (2002): 408-433.

Corruption creates a disconnect between perceived legitimacy and actual authority; it shifts power from central authorities to lower-level bureaucrats who can extract rents from businesses and citizens alike. The result is of particular concern to leaders in the developing world, who may in fact believe that their authority has greater reach than it does on a practical basis, threatening the stability of the ruling class, and thus, creating a chasm of uncertainty that may limit the growth and investment potential of local and foreign firms.

Corruption also has the potential to erode civil society, another pillar of political and social stability. Civil society has the power to hold even the most authoritarian leaders accountable and acts as a buffer between the state and the citizenry, making its proper development essential for transitioning states. In his book *Civil Society and Corruption: Mobilizing for Reform*, Michael Johnston writes, “A look at societies where corruption is under control, or is moderate in scope at most, makes it clear that citizen participation, honest competitive elections, mechanisms of accountability, and a strong, active civil society are essential parts of the anti-corruption package.”⁵⁹ However, corrupt and often times authoritarian regimes ensure that “civil society is weak, divided, and intimidated.”⁶⁰ When citizens feel disconnected from the political and policy-making process, they are less likely to be invested in the future success and growth of the state, highlighting a paradox autocrats encounter when repressing civil society. Authoritarian and corrupt leaders seek to keep their piece of the power and wealth pie fixed, but at the same time grow the pie in absolute terms. However, given the importance of integrated civic participation, growth will be difficult without power sharing between the elites and the general citizenry, which means reducing the concentration of political

⁵⁹ Johnston, M. (2005). *Civil society and corruption: mobilizing for reform*. University Press of America.

⁶⁰ Ibid. Johnston.

power and wealth. Strong civic participation is ultimately built upon mutual trust between those in power and those consenting to the government's authority, a sort of social contract where the citizens contribute their "capital" (tax dollars, community involvement, advocacy, etc) and the rulers grow public "assets" through meaningful investments and sound economic and social policy. A failure to understand the value of this relationship is a recurring pitfall in the developing world, especially so in the Middle East and North Africa, where capturing value from economic growth is often seen as a zero-sum game between the elites and the general populace. The relatively high rate of political corruption in the Middle East is a strong indicator of this phenomenon, highlighting the desire of ruling elites to maintain control over economic and social goods.

The ability of the state to provide safety and security to its constituents is another cornerstone of political stability. However, as you might expect, corruption poses a significant threat to the state's ability to meet its obligations in maintaining a peaceful atmosphere internally. Sarah Chayes, a senior associate at the Carnegie Endowment for International Peace, explored the relationship between corruption and security in her book *Thieves of the State: Why Corruption Threatens Global Security* through stories of graft and violence in the developing world. One her most poignant stories comes from the long-troubled state of Afghanistan, where she describes the plight of a former Afghan policeman who attempted to report Afghan police extracting illegal bribes from his friends and family. He was met only with scoffs from the very institution he used to serve, leading him to say "If I see someone planting an IED on the road, and then I see a police truck coming, I will turn away. I will not warn them."⁶¹ This example

⁶¹ Chayes, S. (2015). *Thieves of state: Why corruption threatens global security*. WW Norton & Company. 3-4

highlights the real danger corruption can play in weakening the security situation in fragile states. In this case, the former policeman, Nurallah, was a man with great loyalty to the Afghan National Police, and yet, his experience with corruption was impactful enough to throw that loyalty into question. If corruption can shake even the most loyal state supporters, then what of its impact on populations less connected to state institutions or more vulnerable to violent extremism? Indeed, corruption seems to have a sharp emotional impact on its victims, both undermining the state's authority and leaving the affected feeling helpless and resentful. In a region like the Middle East, where violent extremism poses a major problem to state security, there are real concerns that corruption plays into the hands of the very groups that seek to recruit members from vulnerable elements in society. Unlike some other imperfections of state structure in developing countries, corruption seems to strike its victims on a very personal level, robbing them of their dignity and undermining their trust in the very authorities that should be guaranteeing that the rule of law prevails. As Sarah Chayes wrote in *Thieves of the State*, "Nurallah's tale was just the most striking demonstration. Corruption, it made plain, was not solely a humanitarian affair, an issue touching on principles or values alone. It was a matter of national security--Afghan national security ... Acute government corruption may in fact lie at the root of some of the world's most dangerous and disruptive security challenges--among them the spread of violent extremism."⁶² Ignoring the impact of corruption on security misses a crucial link to corruption's negative impact on economic growth. By weakening state security institutions, it acts as an additional wildcard in encouraging political instability, which, as highlighted in the Park study, accounts for 53% of corruption's overall impact on economic growth. Furthermore, in a region like the Middle East, which needs no help in the political

⁶² Ibid. 4-5.

instability department, corruption only expands the serious security threats that remain widespread across the region.

Given the body of evidence across disciplines of economics, social science, political economy, and political science, there is strong support with which to conclude that corruption is one of the most powerful geopolitical forces in developmental economics. But what of its relationship to business ethics and the greater Middle East? Corruption ultimately shapes the contours of the business ethics landscape in the Arab world, playing an integral role in forming the dynamics between business and political power brokers. Although there are many additional characteristics of the region that contribute to its present business challenges (see Chapter **Ethical Underpinnings**), corruption helps to set the “rules of the game,” and concentrates power in the region’s elite ruling class.

Professor Norman Bishara (advisor for this paper) of the University of Michigan summarized the role corruption plays in the Middle East in his article *Governance and Corruption Constraints in the Middle East: Overcoming the Business Ethics Glass Ceiling*. In doing so, he concludes that widespread corruption and weak legal regimes, among other factors, create what has amounted to what he calls a “business ethics glass ceiling,” writing “the scourge of corruption, how it drains businesses of capital and reduces trust in government, and the problem of inadequate development are connected. This combined set of disincentives ultimately stunts enterprise and profit growth and perpetuates an environment ripe for corruption, thus leading to the business ethics glass ceiling.”⁶³ This idea strikes at the heart of corruption’s effect on the business ethics landscape and ultimately, the prospects for growth for regional businesses.

⁶³ Bishara, N. D. (2011), *Governance and Corruption Constraints in the Middle East: Overcoming the Business Ethics Glass Ceiling*†. *American Business Law Journal*, 48: 227–283. doi:10.1111/j.1744-1714.2011.01115.x

Instead of simply slowing or inhibiting growth, the pervasiveness of corruption in the Middle East effectively caps the growth potential of businesses, particularly SMEs.

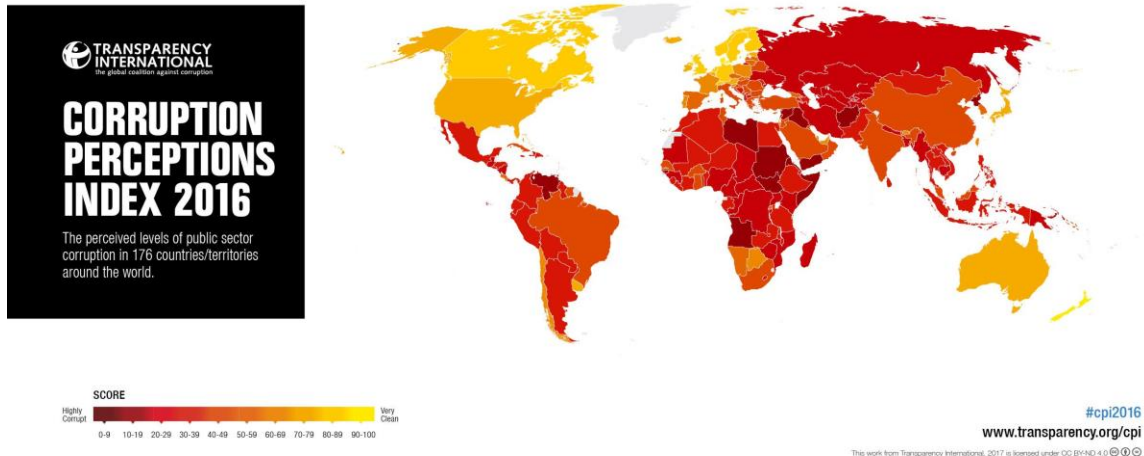
In this sense, business ethics should not be viewed as ancillary to economic performance in Middle Eastern countries, but instead as an integral part of understanding what is holding it back, and more importantly, its role in the region's future. Bishara's business ethics glass ceiling theory reasserts the important roles legal structure, political factors, and culture play in affecting economic growth and as such, they should take center stage in Arab economic reform. Recent developments have been less promising, as Arab governments continue to ignore the need for fundamental reform in favor of flashy and wanton investments that make a mockery of sustainable development. Turning attention towards anti-corruption measures would be far more effective in promoting long-term economic growth that expands opportunities for all Arabs and not just the well-connected few. By addressing corruption head-on, Middle Eastern governments can begin to win back the trust of their constituents, and with an enduring enforcement regime, signal their commitment to political stability. Shattering the business ethics glass ceiling will require a concerted regional effort, starting with sincere attempts to reverse harrowing trends in corruption.

Corruption in the Middle East and North Africa

With this context in mind, we might be better able to understand the role corruption plays in the Middle East and relatedly, how the region's developmental flaws contribute to the weak business ethics environment. As highlighted previously, corruption is not necessarily an easy factor to measure; there is disagreement as to what it constitutes, and even with a consensus definition, available data may be incomplete or misleading (see **Defining Corruption: A Narrow Construction or a Spectrum?**). That being said, some commonly used measures, most

notably Transparency International's (TI) Corruption Perceptions Index, are useful for comparing the relative corruption levels across regions and nations.

The 2016 edition of the Corruption Perceptions Index, published in January 2017, draws its methodology by aggregating the assessments of 12 different economic and political analysis institutions from around the globe, standardizing the data and assigning a composite score to each country.⁶⁴ 176 countries were included in the 2016 study, including all of the countries in the Middle East and North Africa. The map below summarizes the findings of the study, with lighter shaded countries receiving higher composite scores associated with lower levels of corruption and the darker shaded countries receiving lower composite scores to reflect higher levels of corruption:



Transparency International's Corruption Perceptions Index 2016⁶⁵

⁶⁴ Transparency International. (2017, January 25). Corruption Perceptions Index 2016: Short Methodology Note. Retrieved from http://files.transparency.org/content/download/2054/13228/file/CPI_2016_ShortMethodologyNote_EN.pdf

⁶⁵ Transparency International. (2017, January 25). Global map graphic. Retrieved from http://www.transparency.org/news/feature/corruption_perceptions_index_2016#regional

What is most obviously striking is that outside of Western Europe and North America, much of the world remains shaded dark to indicate higher associated levels of corruption. However, given the relationship between economic output and corruption discussed in **The Relationship Between Corruption and GDP Per Capita**, this result is not so surprising. Looking deeper into the results of the study, there emerges clear differences in the relative corruption levels between various world regions. The Middle East and North Africa clearly ranks among the world's worst, significantly lagging behind their Western counterparts. According to the TI report, "90 percent of [Arab countries] have scored below a 50, which is a failing grade," and that "Five out of the ten most corrupt countries in the world are from the region: Iraq, Libya, Sudan, Yemen and Syria. These countries are also inflicted with political instability, war, internal conflicts and terrorism, stressing the fact that war and conflict fuel corruption and in particular political corruption."⁶⁶ The impact of said political instability on the region's corruption levels will be discussed in greater detail later on, as it severely limits the ability of governments to effectively combat corruption.

How does the Middle East compare against other world regions? With a regional average of 38, not only does the Middle East receive a failing grade, but it also falls under the world average (43), leaving it in the company of sub-Saharan Africa and Eastern Europe, significantly below Western Europe, Asia-Pacific, and the Americas.⁶⁷ Furthermore, if you remove outlier countries like the UAE and Qatar, which have grades significantly above the regional average, but together only constitute 3% of the region's population, the Middle East average score drops

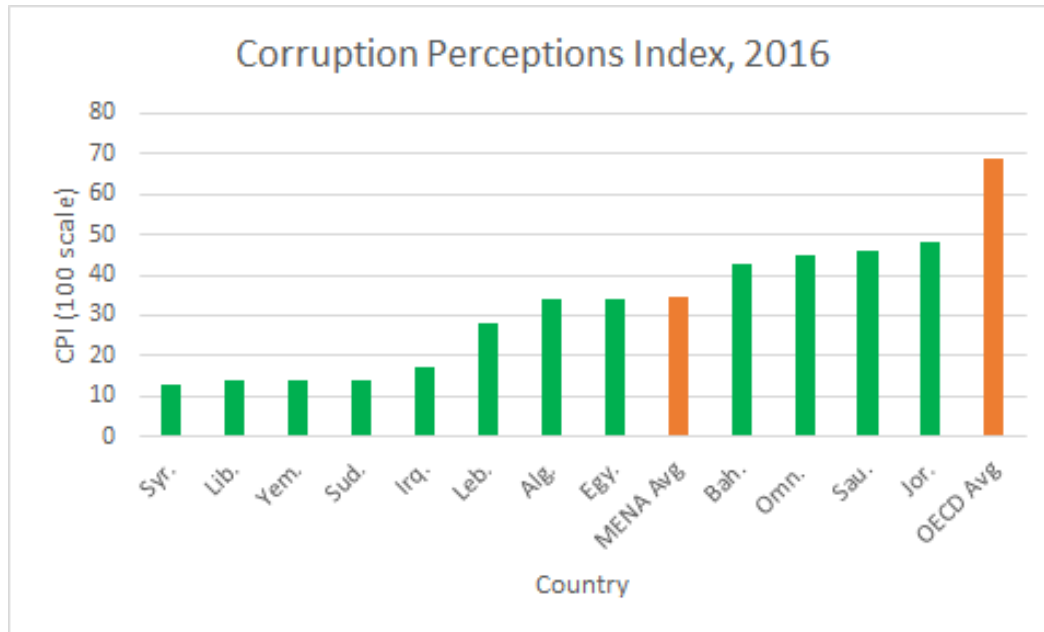
⁶⁶ Hattar, K. (2017, January 25). Middle East and North Africa: A very drastic decline. *Transparency International*. Retrieved from

http://www.transparency.org/news/feature/mena_a_very_drastic_decline

⁶⁷ *Corruption Perceptions Index 2016 (Full report)*. (2017). Retrieved from Transparency International website:

http://files.transparency.org/content/download/2089/13368/file/2016_CPIReport_EN.pdf

sharply to 33, below Eastern Europe.⁶⁸ It is clear that the Middle East performs poorly across the board, but some countries, Syria, Libya, Yemen, Iraq, and Lebanon in particular, have significantly lower scores than regional and world averages.



All data from Transparency International Corruption Perceptions Index 2016.⁶⁹

The Middle East also performs poorly relative to other world regions in surveys measuring experience with corruption on a micro level. In a survey of over 125,000 companies conducted by the World Bank, over 53% of Middle Eastern companies reported corruption “as a major constraint,” a percentage of reporting firms that was significantly higher than any other region.⁷⁰ Furthermore, in TI’s report, *People & Corruption: Middle East & North Africa Survey 2016*, it states that 63% of survey respondents in the Middle East indicated that they thought corruption had increased over the last year and that nearly 1 in 3 respondents reported paying a

⁶⁸ World Bank. (2016). Arab World Population, total. Retrieved from <http://data.worldbank.org/indicator/SP.POP.TOTL?locations=1A>

⁶⁹ Ibid. Corruption Perceptions Index 2016.

⁷⁰ *Data on Corruption - World Bank Enterprise Survey of Business Managers*. (n.d.). Retrieved from World Bank Group website: <http://www.enterprisesurveys.org/data/exploretopics/corruption#-->

bribe in the past year, translating to a stunning 50 million people!⁷¹ These alarming statistics seem to demonstrate that reform movements in the region that followed the Arab Spring have thus far failed to adequately address concerns about corruption. With anger continuing to boil over corruption, it is likely that street demonstrations will continue to challenge political stability in throughout the region. However, what is perhaps most concerning about the widespread corruption in the region is its sustained impact on investment and the ability to do business.

According to the World Bank's *Doing Business 2017* report, the Middle East fared very poorly in terms of the ease of starting and operating a business. Middle Eastern countries had an average ranking of 116 among 190 countries, highlighting the significant bureaucratic challenges Arab entrepreneurs face across the region.⁷² It is highly probable that these hurdles are in some way connected to the region's corrupt political and bureaucratic climate; facing bribes and pressure from government officials at every turn, it is not surprising that businesspeople around the region voice their frustrations about corruption as a major constraint to the growth of their companies.

These statistics confirm much of what was theorized about the state of business ethics in the Middle East (see **Introduction: Historical Survey of Business in the Middle East I and II**). Disjointed development and ineffectual government policies seem to have left policymakers with few options for reform and discouraged companies from making investments or expanding within the region. That is not to say that this experience is uniform throughout the Arab world.

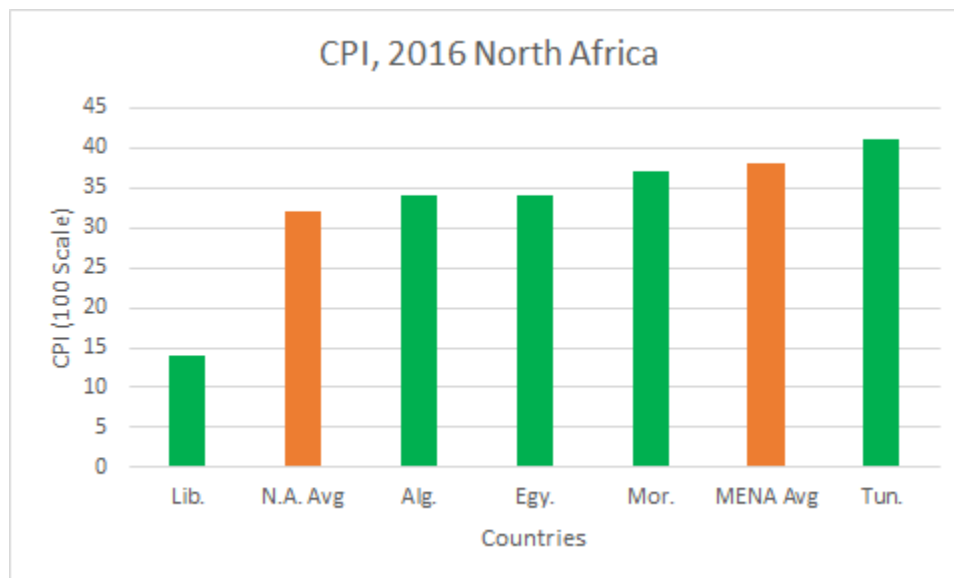
⁷¹ Transparency International. (2016, May 3). People and corruption: Middle East and North Africa survey 2016. Retrieved from https://www.transparency.org/whatwedo/publication/people_and_corruption_mena_survey_2016

⁷² *Doing Business 2017 Middle East and North Africa (MENA)*. (2016). Retrieved from World Bank website: http://www.doingbusiness.org/reports/~/_media/WBG/DoingBusiness/Documents/Profiles/Regional/DB2017/MENA.pdf

Although these figures confirm the region's place among the worst in terms of corruption, they also indicate some variation across specific countries and interregional clusters. For this reason, it is useful to look at the differences on a sub-regional and country-by-country basis.

Egypt & North Africa

North Africa was the home of the wave of protest and regime change that engulfed the Arabic-speaking world in 2011 and yet it continues to lag behind most global standards in corruption.



All data from Transparency International Corruption Perceptions Index 2016.⁷³

However, on a regional basis, the North African countries seem to hover around the average CPI for the MENA region as a whole. Furthermore, some differences exist between North African countries on the kinds of corruption that are most commonly reported. Political instability remains a major constraint in North Africa, with Tunisia, Egypt, and Libya still recovering from major regime changes in 2011-2013. There are also some positive trends, particularly in Tunisia, which had the lowest percentage of companies identifying corruption as a

⁷³ Ibid. Corruption Perceptions Index 2016.

major constraint among Arab countries surveyed by the World Bank.⁷⁴ Algeria, on the other hand, suffers from some of the region's highest graft rates, with nearly 66% of companies reporting the need to provide gifts to public officials to 'get things done,' gifts whose value can average nearly 5% of the total value of business contracts.⁷⁵ Libya's low rating is largely due to the ongoing civil war that has left the central government ineffective and fragmented between rival parties. Meanwhile, Egypt continues to suffer from its notoriously large and corrupt bureaucracy, keeping the country below MENA CPI averages despite pledges by President Abdel Fateh El-Sisi to shake up the culture of corruption.

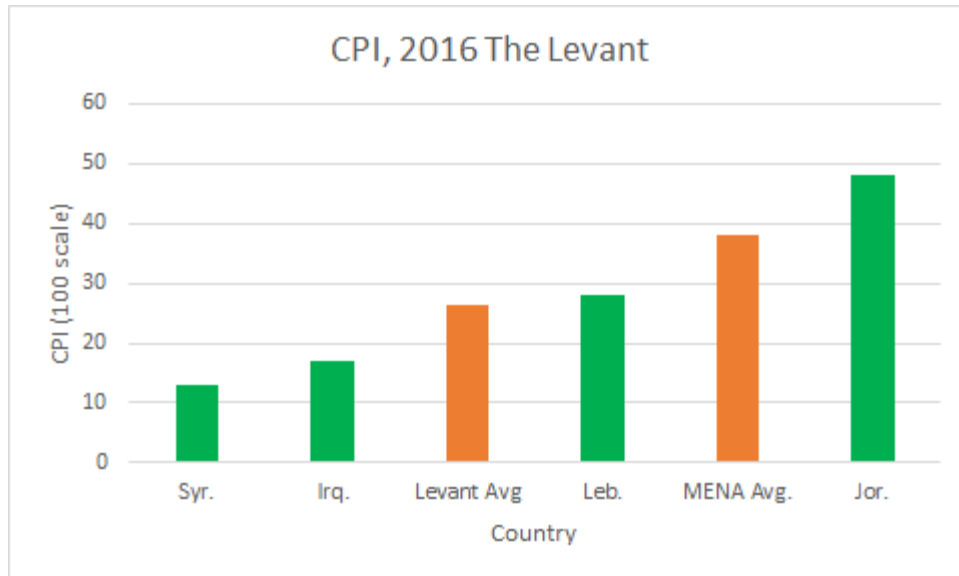
In many ways, the North African sub-region is microcosm of the greater Middle East's challenges with respect to corruption. It faces political challenges as it seeks to build a new political consensus in the wake of the Arab Spring. It faces economic challenges with skyrocketing food prices and ballooning youth unemployment. And it faces social challenges with respect to rising religious tensions and a growing youth demographic. These political, economic, and social trends make it difficult for corruption to be addressed as a matter of policy and as a result, North Africa, much like the rest of the Arabic-speaking world, continues to flounder behind more developed regions in improving its business ethics environment. Promising shifts in Tunisia give hope to what may lie ahead, but at least for now, the future of corruption in North Africa remains very much uncertain.

The Levant

The Levant, known as *al-Sham* in Arabic, includes Lebanon, the Palestinian Territories, Syria, Jordan, and Iraq and lies in the heart of the Middle East. The sub-region fares poorly when compared to the rest of the Middle East.

⁷⁴ See *supra* note 70. Data on Corruption.

⁷⁵ *Ibid.* Data on Corruption.



All data from Transparency International Corruption Perceptions Index 2016.⁷⁶

There is no question that the region is at a disadvantage due to the widespread prevalence of political instability and violence. Syria and Iraq, currently embroiled in violent internal conflicts, are severely lacking in the structural infrastructure to combat corruption and in some cases, the Iraqi and Syrian governments may be relying on income streams from illegal activities to maintain institutional control.

Despite being one of the few democracies in the Arab world, Lebanon has long suffered from an ineffectual and corrupt central government. Frustrations over corruption have led to numerous street demonstrations in the last few years, including the famous “You Stink” movement that began in 2015. These concerns are further highlighted by survey results from TI’s Global Corruption Barometer report, which indicate that an astonishing 92% of Lebanese believe that corruption had increased over the past year, 76% see the government as doing badly in the fight against corruption, and 89% of the population considers the public sector to be tainted by corruption.⁷⁷

⁷⁶ Ibid. Corruption Perceptions Index 2016.

⁷⁷ See *supra* Note 71. People and corruption: Middle East and North Africa survey 2016.

Jordan remains the lone bright spot in the Levant, with a CPI score exceeding both the MENA and Levant averages. Furthermore, Jordanians reported the lowest bribery rates among countries surveyed in the Global Corruption Barometer report.⁷⁸ These superior metrics may be the result of Jordan's more stable political climate, which stands in stark contrast to the Lebanese, Syrian, and Iraqi governments.

Despite Jordan's more positive positioning, the Levant remains an exceptionally corrupt sub-region in one of the most corrupt regions in the world. Additionally, Jordan, Lebanon, Iraq, and Syria all ranked below the region's abysmal 116 average in the World Bank's *Doing Business 2017* report.⁷⁹ With sprawling bureaucracies, corrupt local officials, and inefficient regulatory regimes, Levantine countries are particularly disadvantaged in competing for foreign direct investment, while also making internal economic growth a challenge.

Yemen & The Gulf

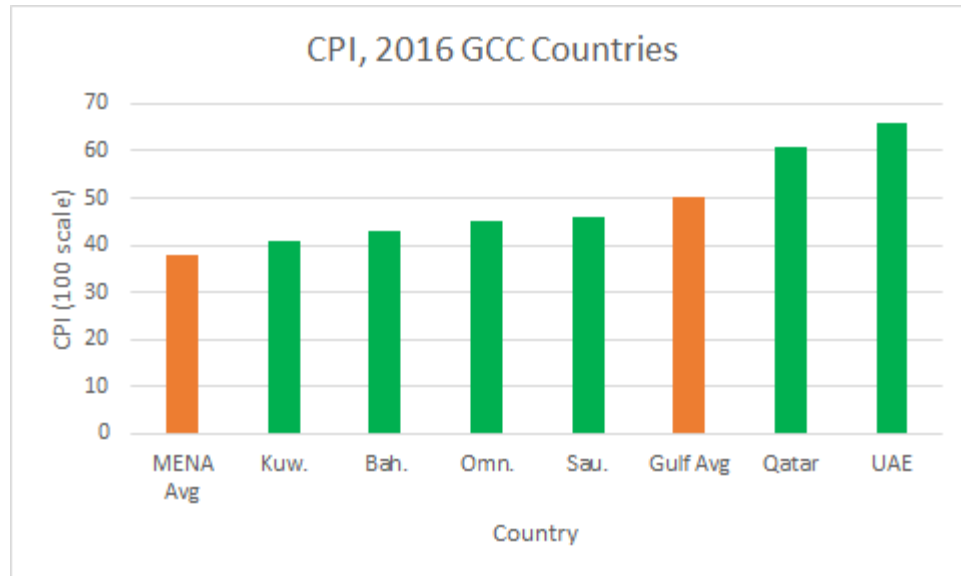
The Gulf states, funded by consistent oil revenue streams and by far the most prosperous Arab nations, dominate the economic activity in the region. According to the United Nations Development Programme 2016 Human Development Report, the members of the GCC⁸⁰ had some of the highest human development index ratings of any countries in the world, far outpacing the rest of the Arab world.⁸¹ But how does this translate to the Gulf's place in corruption measures?

⁷⁸ Ibid. People and corruption: Middle East and North Africa survey 2016.

⁷⁹ Ibid. *Doing Business 2017* Middle East and North Africa (MENA).

⁸⁰ The Gulf Cooperation Council, GCC, includes Saudi Arabia, Oman, the UAE, Bahrain, Qatar, and Kuwait

⁸¹ United Nations Development Programme. (2016). *Human Development Report 2016*. Retrieved from http://hdr.undp.org/sites/default/files/2016_human_development_report.pdf



All data from Transparency International Corruption Perceptions Index 2016.⁸²

All of the Gulf states exceed the MENA average for CPI scores and the Gulf average of 50.33 is the only sub-region average to receive a passing grade. In fact, if the GCC was included as a separate region in the TI Corruption Perceptions Index Report 2016, it would rank second in the world behind only Western Europe. The Gulf's advantage over the rest of the Middle East is hardly a surprise given corruption's well documented relationship with economic growth and output, but at the same time presents a harrowing picture for the rest of the region. The Gulf states collectively constitute about 13% of the Arab world's total population, thereby disproportionately propping up the region's average corruption scores.⁸³

At the same time, it is important to recognize that the ratings given to many of the Gulf states also reflect the weaknesses of the CPI measure. All of the GCC countries are ruled by monarchies, where wealth and prestige remains concentrated in the hands of a small ruling class. With unfettered control over their respective countries' petroleum resources, there is little room for competition from entrepreneurs outside of the ruling royal families. Furthermore, the ruling

⁸² Ibid. Corruption Perceptions Index.

⁸³ World Bank. (2016). Arab World Population, total. Retrieved from <http://data.worldbank.org/indicator/SP.POP.TOTL?locations=1A>

governments rely on patronage, using their expansive oil wealth to pacify internal opposition. Although this system of governance has proved very effective for the GCC countries, it is hardly without deficiencies.

Turning now to Yemen, the country remains an outlier in the Arabian Peninsula. With a CPI score of only 14, Yemen ranks among the most corrupt countries in the Middle East, second only to Syria. Presently engulfed in an internal conflict, Yemen ranked 168th in the world for human development in 2016, the lowest among all Arab states, including Syria.⁸⁴ In 2013, an astonishing 97% of Yemeni firms reported corruption as a major constraint, along with high bribery and extortion rates.⁸⁵ Yemen has long been the poorest and least developed state in the Middle East, and with political strife and corruption continuing to plague the nation, it is unlikely to make strides on the economic front in the near future.

Forms of Corruption in the Middle East

Grand Corruption

The data provided by the World Bank and Transparency International is useful for comparing the relative corruption levels on a regional or country-to-country basis, but does not give much color as to what is actually experienced on the ground. In order to understand the nature of corruption in the Arab world, it is helpful to look at the prevalence of various types of corruption across the region. As discussed in **Defining Corruption: A Narrow Construction or a Spectrum?** TI groups corrupt practices into three buckets: grand corruption, political corruption, and petty corruption. Each of these buckets comes with a very different set of social and economic consequences, so while the absolute corruption level is certainly important, it is

⁸⁴ United Nations Development Programme. (2016). *Human Development Report 2016*. Retrieved from http://hdr.undp.org/sites/default/files/2016_human_development_report.pdf

⁸⁵ *Data on Corruption - World Bank Enterprise Survey of Business Managers*. (n.d.). Retrieved from World Bank Group website: <http://www.enterprisesurveys.org/data/exploretopics/corruption#-->

crucial to understand the “corruption mix” to better understand the pervasiveness and impact of corruption on the ground.

Grand corruption, which typically occurs at the highest levels of government and business, includes transactions of such high monetary value that they could even impact the proper functioning of the affected economic system.⁸⁶ Despite its potential for harm, some have argued that grand corruption has the potential to “grease the wheels” of an economy. For example, a classic case of grand corruption might occur when developers or high net worth investors pay a bribe to a state official in order to bypass regulatory holdups or procure favorable government contracts. The logic behind grand corruption’s “wheel greasing” effect is that it encourages economic transactions that would otherwise not occur in its absence. Suppose, for example, that absent an opportunity to bypass regulatory obstacles, the potential developer in our example would instead invest in another economy on more favorable terms. With the added benefit of reduced regulatory costs or more favorable contracts, the investor is instead encouraged to pay the bribe and ensure that a deal is secured.

However, as Pierre-Guillaume Méon and Khalid Sekkat argue in their article for *Public Choice*, “Does corruption grease or sand the wheels of growth?” the interaction of grand corruption and bureaucratic processes may be far more complicated than initially theorized. They write “Starting with the ill functioning of bureaucracy, the positive impact of corruption on slowness rests on the assumption that a civil servant can speed up an “exogenously” slow process. However, corrupt civil servants may cause delays that would not appear otherwise, just

⁸⁶ Ottaway, M. (2016, May 11). What Does Corruption Mean in the Middle East, Exactly? *Wilson Center*. Retrieved from <https://www.wilsoncenter.org/article/what-does-corruption-mean-the-middle-east-exactly#sthash.HsBWnOQg.dpuf>

to get the opportunity to extract a bribe.”⁸⁷ In other words, the “grease the wheels” theory neglects to consider the impact transactional corruption may have on the proper functioning of government, which might reverberate down the bureaucracy. As a result, both foreign investors and local businesspeople may find it increasingly difficult to do business; without a trickle-down effect to lower strata in the economy can grand corruption really be said to “grease the wheels?”

In fact, as Méon and Sekkat discuss, grand corruption might actually have an opposite “sand the wheels” effect when the quality of governance is low.⁸⁸ In order to test the competing “grease the wheels” and “sand the wheels” theories, they developed an econometric model drawing on economic growth data and corruption measures like the CPI. Their ensuing regression analysis seemed to reject the “grease the wheels” theory, suggesting instead that “corruption does not appear as a way to circumvent bad governance, but as a way to make it more painful.”⁸⁹ Furthermore, they found that “instead of alleviating the cost of bad governance, corruption impedes investment even more in countries whose governance is defective.” The results of the results Méon-Sekkat study highlight the danger grand corruption can pose to developing economies. Weak and underdeveloped political institutions are ill-equipped to counteract the negative side-effects of high-level corruption, which is of particular concern in the Middle Eastern context.

In her article for the *Journal of Banking Finance*, Susan Rose-Ackerman succinctly explains the ‘costs’ of grand corruption:⁹⁰

⁸⁷ Méon, P., & Sekkat, K. (2005). Does corruption grease or sand the wheels of growth? *Public Choice*, 122(1-2), 69-97. doi:10.1007/s11127-005-3988-0

⁸⁸ Ibid. 73

⁸⁹ Ibid. 85

⁹⁰ Rose-Ackerman, S. (2002). “Grand” corruption and the ethics of global business. *Journal of Banking & Finance*, 26(9), 1889-1918.

In short, “grand” corruption can produce serious distortions. The state pays too much for large-scale procurements and receives too little from privatizations and the award of concessions. Corrupt officials distort public sector choices to generate large rents for themselves and to produce inefficient and inequitable public policies. Government produces too many of the wrong kind of projects and overspends even on projects that are fundamentally sound. Corruption reduces the revenue-raising benefits of privatization and the award of concessions. Firms that retain monopoly power through bribery and favoritism undermine the efficiency benefits of turning over state firms to private owners. Her description of these costs demonstrates the ultimate effect of so-called grand corruption: it worsens an already poor business ethics environment.

Fortunately, grand corruption tends to be less widespread in the Middle East and North Africa. However, a lack of transparency at the highest levels of government make it difficult to properly evaluate the pervasiveness of grand transactional corruption. For example, although Lebanon’s government remains far more transparent than some of its counterparts, it does not disclose or regularly provide audits of publicly owned assets.⁹¹ This lack of transparency is particularly concerning as Middle Eastern states undergo privatization, as has been the general trend over the last 20 years. Yet despite the many opportunities for *quid pro quo* exchanges between high-level bureaucrats and private investors, citizens in Arab countries appear to be less worried about grand corruption and instead focus their anger on other forms of abuse.

⁹¹ "Lebanon : Report on Observance of Standards and Codes-Fiscal Transparency Module." IMF -- *International Monetary Fund Home Page*, IMF, 15 May 2005, www.imf.org/en/Publications/CR/Issues/2016/12/31/Lebanon-Report-on-Observance-of-Standards-and-Codes-Fiscal-Transparency-Module-18253.

Political Corruption

Political corruption remains one of the most pervasive challenges to effective governance and economic development in the Middle East. Defined in simple terms, political corruption refers to an institutionalized set of practices that promote the concentration of power and wealth in the hands of an elite ruling class. Compounding the problem is the nature in which it manifests: political corruption is exceptionally hard to measure. It is cultivated over generations and is more difficult to pinpoint on a case-by-case basis. Its effects, however, are felt and understood by all who suffer in its wake. Political corruption is the confluence of concentrated control over economic and political capital. When the two are combined, corruption can become institutionalized in the very political processes that should act as a counterweight to the specter of abuse. Concerns about political corruption are particularly relevant in the developing world, where we often see political power used as a tool by autocrats or a select few for personal gain.

Political corruption can manifest itself in a myriad of ways, prominent among them patronage, nepotism, and extortion. The ultimate impetus behind these tactics is dual factored: 1. Maintaining control over public affairs 2. Extracting rents from the affected population. These two goals also complement each other. Extended political control can develop constituent dependency on a select group of leaders to bring about social and economic benefits, which in turn allows said leaders to more easily extract rents from the dependent constituent group. The result is a zero-sum relationship wherein the ruling few maintain power at the expense of the public good.

The Middle East is no exception to the long reaches of political and institutionalized corruption. With a long history of dictators, warlords, and royal families, millions of Arabs are left without a meaningful political process, subject to the decisions of leaders whose primary

purpose is to extend the longevity of their influence. Furthermore, the challenges analysts face with respect to measuring political corruption in the region allows the continued abuse of power to go relatively unchecked. Marina Ottaway of the Wilson Center explains this phenomenon rather aptly:

The most insidious form of corruption in many MENA countries is rarely recognized in the region, although it raises eyebrows elsewhere. This is the exemption of many groups and individuals from any form of scrutiny or control. Examples abound. Ruling families in Gulf countries control much of the land. They also control the oil revenue, and are secretive about its amounts and their use — how much goes into the state budget or is invested in sovereign wealth funds, and how much disappears into the hands of the ruling families and their clients, sometimes reappearing mysteriously in the financing of extremist groups to which nobody admits providing funds. From the point of view of the West, this spells corruption. In the region, it is a tradition that many accept as normal, and few dare challenge it openly.⁹²

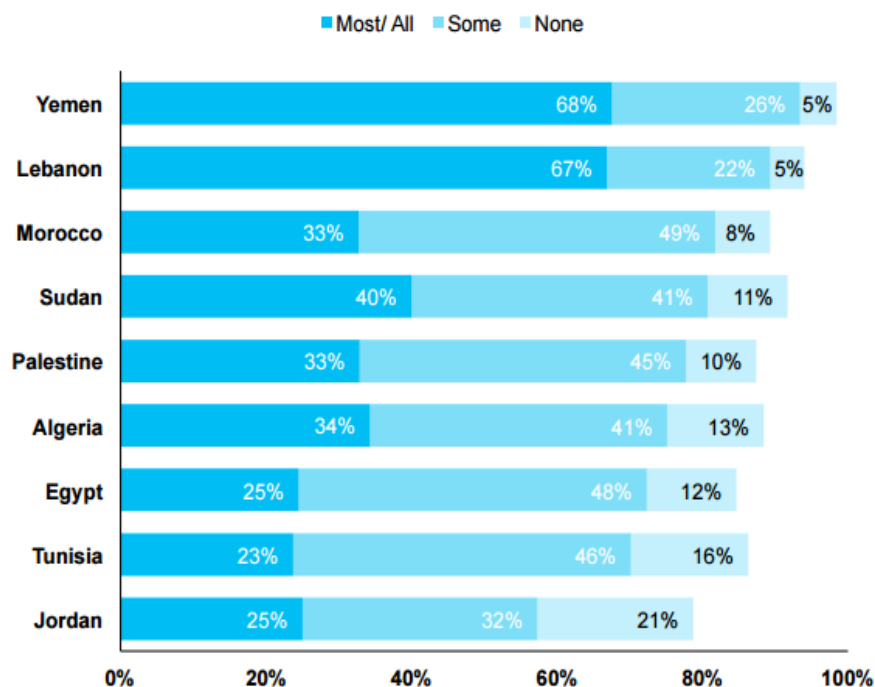
And yet despite the challenges to open criticism of these abuses, the Arabic language is filled with colorful descriptors for the many forms of political corruption. For example, Arabs often decry *Al-Mahsoubiyeh*, which refers to the favoritism that is rampant in the hiring process for highly coveted public sector positions. There is also the concept of *Riahyeh*, or patronage, the tool of choice for Arab political leaders in pacifying dissent and building political allies. Despite the suffocating effect of this political corruption, it is some of these very practices that led to the Arab Spring in the first place, which toppled ruling classes in Tunisia and Egypt, many of whose members were later discovered to be hoarding billions in illicitly obtained wealth. It is a mistake

⁹² See *supra* Note 86. Ottaway.

to say that Arabs are aloof to the activities of their political leaders, but rather that their options for combating political corruption short of open revolution are severely limited.

As such, frustration with political processes in both Arab democracies and dictatorships remains very much widespread. For example, in Transparency International's Global Corruption Barometer 2016 report for the Middle East, huge majorities in most Arab countries reported that they believed that at least some of the public sector was tainted by corruption (see figure below).⁹³ These sentiments were particularly high in Yemen and Lebanon where at least 67% of respondents from both countries indicated that most or all of the public sector is corrupt.⁹⁴

FIGURE 2. HOW CORRUPT IS THE PUBLIC SECTOR?



Transparency International Global Corruption Barometer Report 2016⁹⁵

Noticeably missing from the survey are the Gulf states, which, as discussed earlier, achieve the region's best CPI scores and are associated with lower levels of corruption. However, the control

⁹³ See *supra* Note 71. People and corruption: Middle East and North Africa survey 2016.

⁹⁴ *Ibid.* 12.

⁹⁵ *Ibid.* 12.

political leaders have over precious natural resources, notably petroleum, makes institutionalized corruption an important underreported metric. The difficulty of measuring political corruption does not mean that its effects are any less salient. As such, addressing the structural holes that create opportunities for political corruption is a major theme in this paper.

Petty Corruption

Petty corruption is perhaps the most widespread, and most widely detested, form of corruption in the Middle East. This form of corruption refers to low-value transactions like bribes, petty extortion, and kickbacks that occur in high volume and affect a wide range of individuals and businesses in a society. Despite encapsulating what are often small cash bribes, petty corruption is no less dangerous the proper functioning of the public and private sector. In fact, because it is felt very vividly by its victims, the emotional impact of petty corruption makes it an essential target of reform. Furthermore, petty corruption often affects the poorest, least powerful segments of society, forcing them to pay bribes or other fees in exchange for essential services. Another critical feature of petty corruption is the ability its perpetrators have to mask its presence in the bureaucratic process. This makes it difficult to distinguish illegal activities from those that are sanctioned by law. When, for example, does a license fee for starting a business become a bribe? The line between petty corruption and costs of governance is often blurred, but its presence remains a significant hindrance to the proper functioning of an economy, particularly on a micro level.

Perhaps even more harrowing is the underlying distrust in government that petty corruption helps to foster. In their book *Corruption and Democratisation*, Alan Doig and Robin Theobald explain the impact of petty corruption on state legitimacy, writing “countries in which petty corruption is pervasive must in addition endure disabling low levels of trust in public

institutions, with all the extremely negative consequences for commitment to collective projects, civic behavior, levels of crime and public order.”⁹⁶ By undermining the rule of law, petty corruption reduces faith in political institutions, which in turn depresses the quality of those very institutions. In this sense, petty corruption creates a vicious cycle of sorts, much to the detriment of both the governing and the governed.

As highlighted previously, it is estimated that nearly a third of people living in the Middle East paid a bribe in the past year.⁹⁷ These bribes are demanded from a number of different officials, including police officers, tax officials, and other bureaucrats. Furthermore, they are paid for a variety of services, among them opening a business, obtaining commercial licenses, and expediting bureaucratic processes. This results in the uneven distribution of government services, leaving winners and losers in the Arab public. Those who can “pay to play” are given special treatment while the poor are left at a significant disadvantage. In this sense, petty corruption fosters not only resentment of the government, but also between different social classes in Arab society.

Out of all the three buckets of corruption, petty corruption seems to have the most tangible and vivid effects on its victims. As a result, it is readily understood and universally detested, particularly among middle and lower class Arabs. Given this, it is not a surprise to see that corruption was in fact one of the main driving forces behind the Arab Spring. But even more so than that, petty corruption, combined with political corruption, and to a lesser extent, grand corruption, has pointed impacts on the proper functioning of local markets. The combination of institutionalized corruption and lower level abuses make the business environment inhospitable to entrepreneurs and continued growth. And what of businesses seeking to chart an ethical course

⁹⁶ Doig, A., & Theobald, R. (2013). *Corruption and democratisation*. Routledge.

⁹⁷ Ibid. 19. People and corruption: Middle East and North Africa survey 2016.

in a pointedly unethical environment? The options are indeed limited, and might explain why thousands continue to emigrate from the region every year.

Effects of Corruption on Business in the Middle East

Norman Bishara's "glass ceiling" theory is particularly apt for explaining the suffocating impact corruption has on business in the Middle East.^{98, 99} One rather intriguing phenomenon is the relationship between ethical constraints and the so-called SME financing gap, which describes the disparity in funding opportunities between large firms and smaller, often family-owned businesses.¹⁰⁰ Bishara explains the interplay between the two and how it relates to the Middle East context:

The business ethics glass ceiling is the state of affairs that materializes when internal and external factors, particularly those related to corruption, create a situation where a business chooses to remain small and to appear unprofitable to avoid being a target for corruption. In turn, businesses in this situation appear to be poorly run with little prospect of growth, thus creating a financial picture in which they appear to be poor investments. Such companies may fail to choose (or are unable to choose because of local laws) corporate governance mechanisms with an ethical spillover, mechanisms that embrace transparency and accountability as a check on corruption. The glass ceiling develops as a constraint because, in reacting to corruption in their surroundings, these SMEs and small and medium-sized family firms remain opaque and unable to access financing outside of family

⁹⁸ Bishara, N. D. (2011), Governance and Corruption Constraints in the Middle East: Overcoming the Business Ethics Glass Ceiling†. *American Business Law Journal*, 48: 227–283.
doi:10.1111/j.1744-1714.2011.01115.x

⁹⁹ For a detailed discussion of Bishara's glass ceiling theory, see *supra* **Corruption as a Constraint to Growth, Stability**

¹⁰⁰ OECD (2006), *The SME Financing Gap (Vol. I): Theory and Evidence*, OECD Publishing, Paris.
DOI: <http://dx.doi.org/10.1787/9789264029415-en>

trust networks or traditional bank loans. These sorts of barriers to investment have collectively been called a SME financing gap.¹⁰¹

In a region where small and medium sized businesses make up a significant proportion of total economic activity, the business ethics glass ceiling can put a significant damper on growth. Furthermore, the phenomenon is self-reinforcing; If only larger firms with connections in the government are able to receive favorable treatment, wealth remains concentrated in the firms whose success is seen as a compelling state interest. These barriers to growth can be severely discouraging to private entrepreneurs, and place an upper bound on the potential of smaller firms.

Operating under Bishara's theory, it is clear that a firm's business ethics ecosystem has a profound effect on both its willingness and ability to expand and grow. In a healthy economy, the major constraint on growth should come from competition with other firms, but in an environment where some firms face asymmetric corruption pressures, the market will be distorted in such a way as to undermine the usual incentives for growth.

The point of this discussion is ultimately to highlight that ethics do in fact matter. The ability of a firm to operate unabridged by fears of extortion, bribery, and other forms of abuse is often taken for granted in the developed world. However, in the Middle East, corruption and a weak business ethics environment are some of the biggest challenges that firms, both small and large, face when making decisions about investment and expansion. And yet, despite the frustrations that Arab businesses, policymakers, and citizens share with respect to rampant corruption, little has been accomplished in making progress to improving the business ethics

¹⁰¹ Ibid. 236-237.

environment. In fact, despite being one of the most prominent rallying points for activists throughout the Arab Spring, corruption may have actually worsened since 2011.¹⁰²

Given its pervasiveness and profound impact, one might wonder, why has reforming the poor business ethics environment not taken greater priority in the greater Middle East? The answer lies in a complex web of cultural, political, and structural factors that underpin business and trade in the Arab world. There are certain forms of corruption and business practices that would otherwise be unacceptable in the developed world that may in fact be cultural norms in the Middle East. These norms are the product of hundreds of years of shared experience and history, making their reform all the more difficult. Reform efforts are certainly not helped by the political environment across the region, which remains tumultuous and subject to bouts of extreme instability. Finally, weak enforcement regimes and almost non-existent corporate governance standards make private firms particularly susceptible to unethical business practices. In the next chapter, we examine the cultural, political, and structural underpinnings of the poor business ethics landscape with the objective of identifying important targets for policy reform. This is accompanied by a case study on Lebanon, where there is greater access to local press reports and government data. By examining the driving factors that contribute to the culture of corruption in the region, we might unlock some tangible solutions for private and public players, with the goal of improving the long-term business ethics environment in the Arab world.

¹⁰² O'Toole, M. (2016, May 3). 'It's as if the Arab Spring never happened'. *Al Jazeera*. Retrieved from <http://www.aljazeera.com/news/2016/05/arab-spring-happened-160501124150288.html>

Cultural, Political, and Structural Underpinnings for the Poor Business Ethics Landscape in the Middle East

Culture and the Contours of Business Ethics



A depiction of a pre-modern Middle Eastern market¹⁰³

Up until this point, the majority of our discussion has centered on both the prevalence and impact of corruption on business in the Middle East and North Africa. Yet what has not yet been explained is the underlying relationship between “the way things are” and the impact of said “things.” As discussed in **Defining Corruption: A Narrow Construction or a Spectrum?**,

¹⁰³ Varley, J. (1854). *A bazaar* [Painting found in Wellcome Collection]. Retrieved from https://upload.wikimedia.org/wikipedia/commons/2/2b/A_bazaar._Oil_painting._Wellcome_V0017599.jpg

notions of business ethics and corruption may in fact vary from region to region, culture to culture. This is certainly in the case in the Arab world: culture colors many of the region's characteristics, from religious practices to forms of government. Business is no exception to the reaches of culture, which helps define the contours of firm goals as well as the acceptable business practices in the pursuit of such goals.

The Role of Islam in Arab Business Culture

Arab culture is fiercely mercantile, the centuries old role of the Arab world as the gateway to the Silk Road ingrained in the fabric of Middle Eastern business culture. One surely cannot escape the seemingly endless line of shops and businesses that line the bustling streets of cities like Beirut and Amman, abuzz from dawn until dusk. On the surface, this competitive, profit-seeking business culture appears to come in direct conflict with Islamic derisions of greed and worldly accumulation.¹⁰⁴ In fact, German sociologist Max Weber once wrote of Islam's attitude towards capitalism, namely that it "is inherently contemptuous of bourgeois-commercial utilitarianism and considers it as sordid greediness and as the life force specifically hostile to it."¹⁰⁵ Yet there is doubt as to whether such theories about the relationship between the profit motive and Islamic values are as applicable in practice. Others, for example, argue that Islam has adapted to the values and practices of the cultures to which it has spread, essentially deferring matters of business ethics to the traditions of culture.¹⁰⁶ A more likely, happy medium bridges these two schools of thought. While Islamic values indeed point towards a more egalitarian economic system, they do not explicitly condemn or even discourage profit-seeking behavior.

¹⁰⁴ The Qur'an explicitly discusses business and profit, setting rules for halal business practices vs forbidden or *haram* ones. Many interpret Qur'an 2:275, for example, as prohibiting financing by way of interest, a cornerstone of modern economics.

¹⁰⁵ Turner, B. (1974). Islam, Capitalism and the Weber Theses. *The British Journal of Sociology*, 25(2), 230-243. doi:10.2307/589314

¹⁰⁶ Adas, E. B. (2006). The making of entrepreneurial Islam and the Islamic spirit of capitalism 1. *Journal for Cultural Research*, 10(02), 113-137.

The Prophet Muhammad was himself a merchant, like many of his contemporaries in early Arab society. It indeed appears that Islam has come to coexist with, rather than dominate Arab culture, leaving room for a tension between faith and the practical considerations of life in the modern world. Arabs are very much engaged in the global market and a great many of Arab banks and financial institutions continue to finance lending by way of compound interest, despite its apparent conflicts with Islam.¹⁰⁷ At the same time, the experience for foreign investors and local entrepreneurs certainly varies within the Middle East itself as well. The process for financing a real estate development in Lebanon, for example, would appear almost completely foreign to an investor obtaining financing from a *shariah* compliant bank in Saudi Arabia.¹⁰⁸ It is an easy trap to ascribe features of modern day Middle Eastern culture to a monolithic, unchanging body of Islamic values, but doing so ignores the great diversity of practices and practitioners in the region. Islam, as the predominant religion among Arabs, remains a critical part in the personal and professional lives of the Arab people, but its relationship to commerce and trade is less than concrete. Ultimately, the role of Islam in Arab business culture is to set a basic standard of ethics that firms are expected to respect, but it leaves far more open questions than it answers.

An Arab Business Culture Ethic?

Given this, is it possible to describe a standard “Arab business culture” without resorting to harmful stereotypes that do little to explain what daily interactions in the Arab marketplace actually look like? In my opinion, even attempting to do so misses the point of studying culture in the business context. Instead, the focus should be centered on how Arab cultural norms *inform* the practice of commerce in the region. In truth, there is no uniform “Arab business culture,” but

¹⁰⁷ See *supra* Note 91.

¹⁰⁸ Wilson, R. (2013). The development of Islamic finance in the gulf cooperation council states. *The Transformation of the Gulf: Politics, Economics and the Global Order*, 146, 47-76.

there are features of modern Arab society that help place the decisions of individuals, firms, and government officials in an important context. Arab-owned firms, for example, might have different notions of what success looks like when compared to their American counterparts. These notions are ultimately steeped in the cultural norms that underpin Arab society and understanding these norms could be useful in targeting reform efforts. As such, in the next few subsections, I will discuss some features of the way Arab society is organized that may contribute to the poor business ethics landscape in the region.

Wasta: Friendly Intercession or Conduit of Abuse?

Arab society is structured largely around its most basic and important social unit: the family. Tied into what constitutes family in the Arab world are notions of honor and respect, burdening its members to act as agents of the family as a whole. Furthermore, one's social status is tied almost directly to the reputation and history of their familial or tribal lineage. As a result, the actions of any single individual in the family unit, be they a brother or even a distant cousin, affect the social standing of the entire family.¹⁰⁹ Individuals in the family unit thus share in the successes of their kin, but also stand to share in their failures as well.

This dynamic creates an inherent social contract in the Arab family structure. Each member of the family is incentivized to see that their brethren succeed, so when one a family member calls on another for help, it is expected that the requested member offer unabridged assistance. This extends to requests for even high-value financial assistance, among other time or capital intensive efforts. With one's identity so tied-up in the success of their familial unit, requests that may seem inappropriate or taboo in other cultures can appear completely normal in the Arab world. Additionally, these bonds often transfer into non-blood relationships, like close

¹⁰⁹ Barakat, H. (2005). The Arab family and the challenge of social transformation. *Women and Islam: Critical Concepts in Sociology*, 2, 145-165.

friendships, or in-laws. The result is a built in support system: friends and family are prepared to expend their social capital with the expectation that they will receive assistance should they so need it.

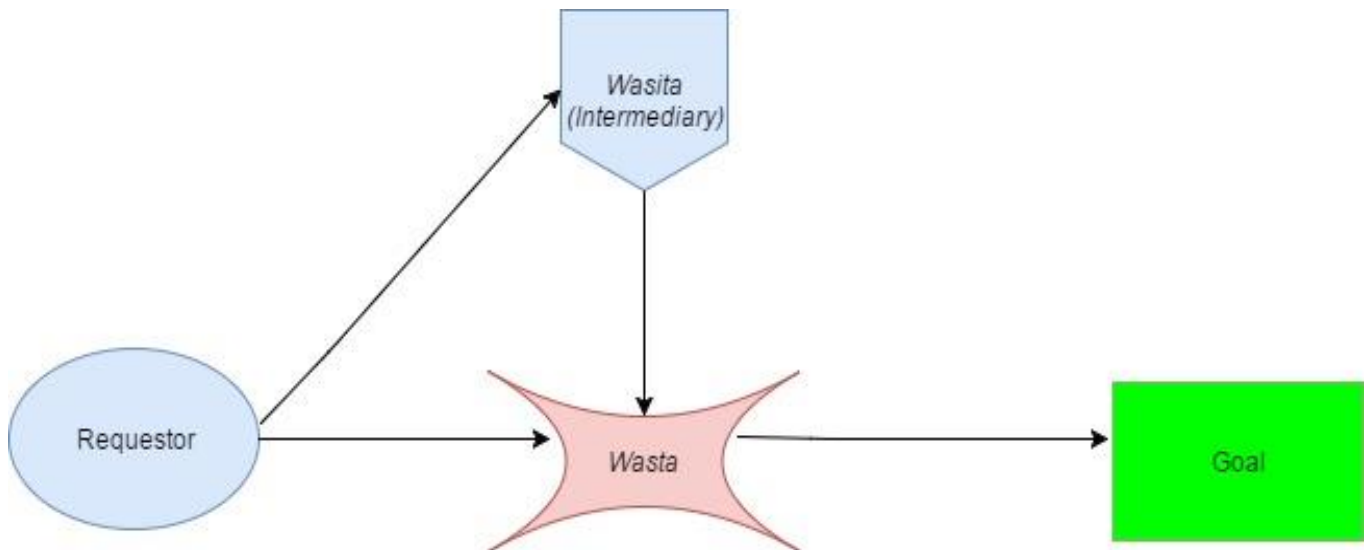
At first glance, this social structure does not seem too different to other cultures, even those in Western societies, but its uniqueness lies in how far it is ingrained in society, impacting the way even politics and business are conducted. The spillover of familial intercession into broader society is known in the region as, *wasta*, the centuries old phenomenon steeped in the tribal origins of Arab society.¹¹⁰ Individuals rely on *wasta* to obtain that which they could otherwise not obtain on their own or through formal processes. In a *wasta* transaction, an individual goes to an intermediary or *wasita* who then uses their influence or position to fulfil the ask of the requestor. The *wasita* is often a family member or close friend in a position of influence in government or the private sector. This extends to an almost infinite variety of services, including speeding government processes, obtaining a prestigious job, avoiding a fine, or securing a government grant. *Wasta* might be compared to *guanxi* in China, which operates on a similar understanding of social favors, but, as China has recognized the importance of conforming to international standards, *guanxi* has gradually been addressed through a greater focus on the rule of law.¹¹¹ This stands in contrast with the Middle Eastern context, where *wasta* still appears to trump existing laws and regulations.¹¹² Although *wasta* transactions can often appear relatively benign, it is clear that they can open avenues for abuse.

¹¹⁰ *Wasta* is derived from the Arabic root “w - s - t,” which means “middle” or “connection.” In formal Arabic, *wasta* is vocalized as *wasita*, meaning “mediator” or “intermediary”

¹¹¹ Hutchings, K., & Weir, D. (2006). Guanxi and *wasta*: A comparison. *Thunderbird International Business Review*, 48(1), 141-156.

¹¹² *Ibid.* 148.

A Simple *Wasta* Transaction



It might be helpful to illustrate *wasta* through a simple example: A woman in seeking to introduce frozen yogurt to a lucky Middle Eastern town needs to wait 90 days for the government to approve her business license application. However, the woman discovers that a friend coincidentally came upon the same idea and submitted his business license application around the same time as her. Wanting to be the first mover in the market, the woman calls upon her uncle, who works in the city's municipal government, explaining her situation. Acting as a *wasita*, the uncle moves his niece's license application to the top of list, and her application is approved in 7 days.

Although this story would almost certainly constitute an unacceptable and illegal act in Western countries, others like this are commonplace in the Middle East. That is not to say that such favors do not breed resentment in the Arab world, but, as Robert Cunningham and Yasin Sarayrah explain in their book *Wasta: The Hidden Force in Middle Eastern Society*, the nature of

wasta perpetuates its continued existence: “Wasta as intercession or advocacy to obtain a benefit or to speed one’s paperwork gets a mixed reception. People resent others receiving favors to which they cannot obtain access, but they extend and receive *wasta* intercessory services themselves.”¹¹³ Furthermore, since receivers of *wasta* services are expected to reciprocate when called upon, *wasta* creates a built-in *quid pro quo* mechanism that makes its saliency in Arab society all the more strong. With this in mind, it is clear that *wasta* has a profound impact on the nature of business in government in the region. It is a prominent example of where culture meets practical application, and understanding the interplay of family-centric values in the region is critical to designing effective reform plans.

How might *wasta* impact the contours of business in the Middle East? One hypothesis is that it might result in the inefficient matching of capital across the regional economy. This “capital mismatch” stems from the priority of familial and kinship connections over what might be more economically efficient outcomes. For example, a government agency might contract with a more expensive, less efficient firm due to a family connection between a bureaucrat and a firm partner, skipping over options that might provide greater economic and social benefits. In Arab economies that feature heavy state involvement, this dynamic might have a significant impact on the economy, creating an additional, unnecessary cost to taxpayers. To illustrate this, we can imagine a firm securing a contract with the government to develop a real estate project in a Middle Eastern city. Imagine further that the firm secured the contract on the basis of a *wasta* connection in the government and that more efficient developers were available for contract. In this case, an additional cost is created from the subsequent inefficient use of tax revenue, where the firm is passing off an additional social cost onto taxpayers (see diagram). This results in a

¹¹³ Cunningham, R. B., & Sarayrah, Y. K. (1993). *Wasta: The hidden force in Middle Eastern society*. Praeger Publishers.

cost beyond the transaction, as the price paid by the government increases and an inefficient economic outcome is created.

Furthermore, the presence of *wasta* might slow the growth of entrepreneurial ventures. With the emphasis on kinship connections, start-ups with partners who are not well-connected might be limited in their options for funding. Absent the emphasis on *wasta* connections, firms would compete on an equal playing field when seeking funding or complying with government regulations. *Wasta* distorts the normal competitive forces that would drive a vibrant economy, giving more credence to luck than the sweat of brow.

Family ties also play an important role in shaping the form and activities of government in the Middle East. A healthy and properly functioning government is critical to the development of the economy, but achieving a strong bureaucracy requires individuals in public service committed to the collected good. Arab culture indeed bends towards a community-oriented and collective society, but the scale of “community” is defined in a limited sense. More specifically, Arabs are often motivated to support those in their kin, which can sometimes be in conflict with what is best for society as a whole. Cunningham and Sarayrah explain how *wasta* degrades the effectiveness of state institutions:

The family remains triumphant, and universal values do not pervade the bureaucracy. Those who would challenge the primacy of family loyalty are scorned or crushed. The ambivalence and paradox appropriate for a development frame of mind are trodden down by family group-think. Bureaucratic universalism or individualism has yet to gain a toehold in the Middle East. Bureaucracy cannot overcome the family-based *wasta* system.¹¹⁴

¹¹⁴ Ibid. 168.

Cunningham and Sarayrah's conclusion is critical to understanding the powerful impact that this "hidden hand" has on Arab society. Bureaucrats and firms are often making decisions about what is best for their kin, rather than what is best for the public or for the firm.

What makes *wasta* important in the business ethics discipline? First and foremost, it helps place Arab business culture in a comparative context. *Wasta* norms that are widely accepted in the Middle East might be considered highly unethical in Western countries, and sometimes even illegal. What some may deride as blatant corruption, others may see as a familial obligation. Nonetheless, *wasta* does play a major role in contributing to the less than stellar business ethics environment. Although rooted in virtuous values of family and generosity, its application is better suited to the simpler times of the past, where life was indeed centered on family and small communities. In the modern area, the *wasta* system represents an obstacle to sustained development and thus, reform efforts must target its long reach.

Organizational Theory of Management in Practice

Beyond the impact of the *wasta* system, it is also useful to look at how basic features of Arab culture might affect the way business is conducted, even if it has limited connection to business ethics. The theory is that by doing so, one might be better equipped to both develop reform and convince its intended targets of the utility in making changes in the way business is done. Broadly speaking, Arabs place a high emphasis on hospitality and personal relationships whether in a formal or informal context. As a result, business often blurs the line between professional and personal life in the Middle East. The owner of a shop will likely become very well acquainted with the family life of his or her employees and vice versa. This dynamic is not at all considered an intrusion into one's private life, but rather as a development to be discouraged, a natural part of doing business. As discussed earlier, individual identity in the Arab

world is closely connected with familial honor and reputation. Thus, the mixing of personal and professional spheres is an important way individuals present themselves to others, as well as a critical way they learn about others.

As a result, meetings might be held at someone's home over dinner, rather than in a conference room. It also follows that charisma and sociability are especially valued traits in the business world. In a sense, a business models the foundational social unit in Arab society: the family. With this in mind, employees are expected to both interact with one another and enjoy each other's company. This close knit business culture might be entirely foreign to an outsider, but completely acceptable in the Arab world.

This dynamic was elucidated by a study by Priyan Khakhar and Hussain Gulzar Rammal in their article for the *International Business Review* titled, *Culture and business networks: International business negotiations with Arab managers*. Through interviews with Lebanese business managers, they hoped to discover some common traits that might explain tendencies of Arab negotiators. They wrote the following about their analysis of the interviews:

The interviews also revealed that in order to foster trust during the negotiations, the Arab managers spent a considerable amount of time during the pre-negotiation stage communicating information between the parties to create a somewhat informal 'atmosphere' before beginning the actual negotiations. A number of the interviewees explained that in an attempt to create trust between the parties at some personal level and to foster long-term relationships, the Arab managers even invited foreign negotiators to their private residences for an informal dinner before the negotiations commenced. The

managers believe that by creating a personal relationship, the parties would be able to negotiate in a cordial and trusting environment.¹¹⁵

This analysis confirms the personal nature through which business is conducted in the Middle East, whether in the context of negotiations or day-to-day operations.

Arab culture is predicated on the honor and good faith of its constituent members and this bleeds into the world of trade and commerce. This makes reneging on a contract or committing business fraud particularly detested in Arab society. When one develops a reputation for being untrustworthy in matters of business, it becomes difficult for that person to rehabilitate their image. This cultural force has the impact of improving business ethics in the region and can play an important role in designing comprehensive reform.

It is also helpful to examine what constitutes “corporate culture” in the Arab world. Although small and medium sized businesses indeed take on larger significance in the Middle East, larger firms may have a significant impact on the way business is conducted in the region. Corporate culture can be thought of as a normative structure through which firms can generate a uniform experience among its employees, in effect influencing their decision making.¹¹⁶ This occurs through the process of socialization, which refers to “the process of being made a member of a group, learning the ropes, and being taught how one must communicate and interact to get things done.”¹¹⁷ The “getting to know you” nature of Arab business culture is an important part of the socialization process, but ultimately does little to explain what corporate culture looks like on a hierarchical level.

¹¹⁵ Khakhar, P., & Rammal, H. G. (2013). Culture and business networks: International business negotiations with Arab managers. *International Business Review*, 22(3), 578-590.

¹¹⁶ O'Reilly, C. (1989). Corporations, culture, and commitment: Motivation and social control in organizations. *California management review*, 31(4), 9-25.

¹¹⁷ Pascale, R. (1985). The paradox of "corporate culture": Reconciling ourselves to socialization. *California Management Review*, 27(2), 26-41.

Jamil Hammoud published an article in the *International Journal of Business and Social Science* describing what he calls the “Consultative Authority Decision Making” model (CADM) as the “cornerstone of Arab culture and corporate culture.”¹¹⁸ He writes that CADM is largely the product of the family-oriented structure of Arab society, often centered around a male authority figure:

CADM can be defined as an informal top down hierarchal decision making process in which male leaders at the top, who retain relatively unquestionable authority, make decisions after consultations that range from appearance of to resemblance of participation. The lower one goes in the hierarchy, the less meaning consultations take and in most cases they are non-binding. Although, in social settings consultations are relatively more binding due to the consensual nature of submission to the leader who in turn cares to build and reflect consensus, managerial authority and ownership of economic resources in the context of business organizations render consultations less binding especially at lower levels of the organization.¹¹⁹

The CADM model of corporate culture highlights a consistent paradox in the cultural framework of Arab businesses. While firms indeed seek a family-oriented cultural dynamic, they also model after the authoritative, male dominated ethos that characterize Arab society. This strict hierarchical structure may leave businesses more susceptible to the reaches of corruption or at the very least in ignorance of important issues in business ethics.

This is accompanied by a reduced emphasis on outside stakeholders: the firm is seen as acting in a social and political vacuum. The business is treated as a community, but the business

¹¹⁸ Hammoud, J. (2011). Consultative authority decision making: On the development and characterization of Arab corporate culture. *International journal of business and social Science*, 2(9).

¹¹⁹ Ibid. 144.

itself is not community-centric. Although the idea of a “triple bottom line” and stakeholder management is relatively new in Western circles, the idea that business should consider social issues in the decision making process is particularly foreign to Middle Eastern firms. This of course, is with the caveat that firms in the Middle East are significantly smaller and face a different set of constraints (see **Corruption in the Middle East and North Africa**).

Furthermore, it does not mean that Arab businesses will not be receptive to a community-centric model of the business, in fact, Arab ethical norms might actually make introducing this model a success (see **Private Sector Responsibility and the Role of Firms**). However, at present, Arab business culture is not particularly conducive to an ethical environment. Without significant changes to the way business is conducted on a day-to-day and strategic level, the region is unlikely to improve its business ethics landscape.

Violence, Instability, and Repression: Business & the Politics of War



The rubble of a destroyed building near Sanaa in Yemen.¹²⁰

¹²⁰ Qasem, I (Photographer). (2013, June). *Destroyed house in the south of Sanaa*. [digital image]. https://commons.wikimedia.org/wiki/File:Destroyed_house_in_the_south_of_Sanaa_12-6-2015-4.jpg

One would be remiss not to recognize the important role that the Middle East's political environment plays in the way business is conducted across the region. Businesses and entrepreneurs do not operate in a political or social vacuum. They must respond to emerging threats on both a macro and micro scale in order to stay ahead of what may come next. There are fundamental levers that a business can control, but being prepared for what is out of their control can be just as important for their long-term viability and success. An adequate strategy for addressing risk factors is a pivotal part of any business and that is no exception in the Middle Eastern context. It just so happens that in the Middle East, political risks dominate the concerns of businesses both large and small. It is not an obscure fact that the Arab world has been and continues to be the site of some of the world's most violent conflicts. Furthermore, Arab citizens and businesses must contend with the specter of political instability, the region still reeling from a wave of revolutions that toppled several long-standing regimes. A third significant political concern is the suffocating repression of free speech and individual rights across the region, which has pointed consequences for business as well. In the next few subsections, we examine the impact of each of these political factors on business in the Middle East and ultimately, how these factors contribute to the deterioration of business ethics in the region.

Mortars and Management: War in the Business Sphere

The most obvious impact of war and violence on businesses is the physical threats they pose. Modern weaponry has placed incredibly destructive power in the hands of both state and non-state actors alike, resulting in the wholesale destruction of neighborhoods, towns, and even major cities. Photographs coming out of cities like Aleppo in Syria portray scenes of unthinkable

devastation, with formerly tree-lined streets transformed into ash and ruins.¹²¹ The same is true of Yemen, which has seen its major cities, Sanaa and Aden, become the site of craters from airstrikes and mortars since the Yemeni Civil War began in 2014. Iraq also continues to recover from the damage incurred during the Iraq War and subsequent internal strife.¹²² These conflicts have inflicted a significant physical toll on the infrastructure of their respective countries, making the efficient delivery of goods and services almost impossible. Beyond damage to infrastructure, countless private enterprises have been physically destroyed or rendered inoperable as a result of violent conflict. Still, despite the enormous risks they face, many choose to continue running businesses in close proximity to violent conflict. In Damascus and Baghdad, for example, where the security situation is more stable relative to their more violent surroundings, business continues to operate as usual. The dangers they face are very real and yet every day, thousands of small and family-owned businesses open their doors to customers across the Middle East. In some ways, this is a testament to the upstart, hardworking business work ethic in the Arab world, but the more likely answer is that these business owners do so because they must.

An additional impact of these violent conflicts is the potential for a spillover effect. Although the region is not well integrated politically, many Arab countries have important bilateral relationships with one another that heighten the interconnectedness of their economies. This means that when one country in the region erupts into violent conflict, its neighbors and

¹²¹ Estimates on the total cost of the war in Syria to be in the hundreds of billions of dollars in physical damage. World Bank. (2016, May 24). The Importance of Planning Syria's Eventual Reconstruction. Retrieved from <http://www.worldbank.org/en/news/feature/2016/05/24/the-importance-of-planning-syria-s-eventual-reconstruction>

¹²² The Iraq War is estimated to have resulted in more than \$30 billion in physical damages on Iraqi property. Kamrany, N., & Sieffert, M. (n.d.). Estimating War Damages Sustained by Iraq (2003 - 2010). *The Huffington Post*. Retrieved from http://www.huffingtonpost.com/nake-m-kamrany/post_1518_b_803541.html

other regional partners are likely to experience shocks to their own internal stability. For example, Lebanon, which has significant political, cultural and economic ties to Syria, has been mired in political and economic turmoil since the start of the Syrian Civil War in 2011 (see *Case Study: Lebanon in the Shadow of Syria*). The point of this discussion is to illustrate that what happens in one country does not stay contained in that country, but rather, it can have reverberating effects on the entire region, along with associated impacts on the business environment.

The violent struggle for significant swaths of the Levant, among other conflicts is accompanied by the ever looming threat of terrorism. Terrorism has afflicted almost the entire Arab world, putting a damper on tourism and making daily life a challenge for its inhabitants. For example, the rise of Islamic State (IS) inspired terror attacks across a spate of Middle Eastern countries, notably Egypt and Tunisia, have cost them millions of dollars in tourism revenue, which make up significant shares of their respective GDPs.¹²³ This of course, is nothing to say of the psychological impact of terrorism on the countries in which it is prevalent. It is well documented that terrorists seek to carry out attacks on targets they believe will inflict the highest number of casualties. Not surprisingly, this makes retail and business districts major targets for international terrorists.¹²⁴ There is no question that these attacks have a psychological impact on both the willingness of customers to frequent small retail shops and the willingness of shop owners to operate in the face of such threats. A single attack can have effects on the local market

¹²³ Petroff, A. (2016, July 18). These countries are losing millions of tourists because of attacks. *CNN*. Retrieved from <http://money.cnn.com/2016/07/18/news/travel-flight-holiday-turkey-egypt-france-tunisia/>

¹²⁴ A case in point was the recent IS attack on the al-Hadi shopping center in the Karrada District of Baghdad the left nearly 300 people killed. Sims, A. (2016, July 8). Baghdad bombing: Death toll rises to nearly 300 in Isis car bombing. *The Independent*. Retrieved from <http://www.independent.co.uk/news/world/middle-east/baghdad-bombing-death-toll-rises-to-nearly-300-in-isis-car-bombing-a7127386.html>

that linger for a lengthy period of time, making terrorism another significant political risk that businesses face in the region.

The threat of terrorism, coupled with proximity to violent conflict ultimately has a significant impact on the shape and activities of businesses in the Middle East. There is no question that security issues remain at the forefront of manager's concerns when making business decisions. Might they, for example, be less inclined to make major investments or expand operations due to fear from these risks? It is also prudent to question why an entrepreneur would risk his or her capital when facing the specter of a catastrophic outcome? In this sense, the security threats in the region may have a significant depressing effect on the willingness of investors or business owners to take on additional risk. It is a well-established principle in economics and finance that taking additional risks is correlated with increased, but not guaranteed returns. However, with political risk being of the particularly volatile variety, businesses are simply less willing to face catastrophic loss for the prospect of marginal gains. This has the ultimate consequence of reducing overall economic activity and placing an upper bound on the growth potential of firms, particularly those in proximity to violent conflict or those operating in regions that are susceptible to terrorist attacks. This puts many Middle East business decision-makers at a particular disadvantage when compared to their counterparts outside the region, or in parts of the region less prone to violence (i.e. the GCC). But what of the impact of war and violence on the business ethics landscape of the region? Through the following case study of Lebanon and its relationship to the neighboring civil war in Syria, we might better elucidate the impact of war on business ethics.

Case Study: Lebanon in the Shadow of Syria

Lebanon, a small Mediterranean country of only 4 million, has been a flashpoint for conflict throughout much of its short history. Despite having a total area smaller than Connecticut, the country is home to dozens of religious and ethnic groups, which self-segregate into different parts of the country, although the capital, Beirut, features many different sects living in close proximity with one another.¹²⁵ Chief among such groups are the Maronite Christians, Greek Orthodox Christians, Sunni Muslims, Shi'ite Muslims, and Druze. In order to divide power amongst the main religious groups, the Lebanese Constitution stipulates a *confessionalist* parliamentary democracy in which the President must be a Maronite Christian, the Prime Minister a Sunni Muslim, and the Speaker of Parliament a Shi'ite Muslim. This, however, did not stop the country from plunging into civil war in 1975, which ended in 1990 after the signing of the Taif Agreement, but not before leaving more than 100,000 killed and much of the country destroyed.¹²⁶ In the immediate post-war period, Lebanese businessman Rafic al-Hariri assumed the the premiership and set about reconstructing the bombed out streets of Beirut, which had been a major tourist and business hub prior to the war. In order to do so, Hariri and his allies pushed for the passage of Law 117 in 1991, which created a private company comprised of public and private ownership that would coordinate the redevelopment of Beirut's severely damaged Beirut Central District (BCD).¹²⁷ The company, named Solidere, was given tremendous power to transfer private property into its coffers, and whether or not this

¹²⁵ Central Intelligence Agency. (2017, January 12). The World Factbook. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/geos/le.html>

¹²⁶ The Taif Agreement transferred some powers away from the Maronite President post to the Sunni Muslim Prime Minister. It also strengthened the power of the Shi'ite Speaker of Parliament, while promoting greater power sharing in the Parliament. Krayem, H. (1997). The Lebanese civil war and the Taif Agreement. *Conflict resolution in the Arab world: Selected essays*, 411-436.

¹²⁷ For an excellent analysis of the Lebanese government's attempts at post-war development, see Reinoud Leenders's *Spoils of Truce: Corruption and State-Building in Postwar Lebanon*. Leenders, R. (2012). *Spoils of truce: Corruption and state-building in postwar Lebanon*. Cornell University Press.

process was voluntary remains dubious.¹²⁸ Since its creation, Solidere has been mired in accusations of corruption, bribery, and abuse, aimed particularly at its shareholders, who gained enormous wealth as downtown Beirut began to flourish in the late 1990s and early 2000s. Nonetheless, Solidere's work was allowed to continue relatively unaccounted throughout Lebanon's post-war reconstruction period and today remains the most important development company in Beirut, despite the increased involvement of other firms, namely from the Gulf. The government's redevelopment efforts have not been without its detractors, however, as Solidere remains in the crosshairs of protestors and reformers.



A banner reading “STOP Solidere” hangs over the St. Georges Hotel in the BCD.¹²⁹

This example highlights the impact of war and violence on business ethics in a clear way. The economic and political vacuum left in the wake of the Lebanese Civil War led to the dominance of a concentrated group of firms and investors in what was a previously diversified

¹²⁸ Ibid. 108-113.

¹²⁹ Uwe, A (Photographer). (2013, May). *Stop Solidere (you are in the saint george bay), Beirut* [digital image]. Retrieved from [https://commons.wikimedia.org/wiki/File:Stop_Solidere_\(you_are_in_the_saint_george_bay\),_Beirut.JPG](https://commons.wikimedia.org/wiki/File:Stop_Solidere_(you_are_in_the_saint_george_bay),_Beirut.JPG)

central business district. Privately owned enterprises were left at a significant disadvantage when trying to compete with businesses that had state backing. Furthermore, Solidere's tight control over downtown Beirut encouraged a culture of graft and abuse that permeated throughout Lebanon's businesses. It is true that a heavy handed approach was needed to rebuild the city after years of damage and decay and that the private-public partnerships that carried out Rafic Hariri's vision indeed brought about tremendous economic benefits to Beirut and Lebanon as a whole, but it came at the cost of depressing the country's business ethics environment.

Of course this development is only a part of what explains the ethics landscape in Lebanon in the present day. The Syrian Civil War has had a profound impact on the Lebanese economy, and consequently, its businesses. Lebanon has long had strong cultural, political, and economic bonds with its neighboring Syria. In fact, prior to 1920, there was little conception of "Lebanon" as an individual state with its own territorial boundaries.¹³⁰ Beirut and its neighboring cities were considered a part of *al-Sham*, meaning Greater Syria or the Levant, but the Ottomans referred to the Christian dominated area west of Damascus as *Jabal Lubnan* or Mount Lebanon.¹³¹ Furthermore, it was not until Lebanon gained independence from French rule in 1943 that the Lebanese state assumed its modern form. With this in mind, there are a lot of similarities between Lebanese and Syrian culture, but important differences remain. For one thing, the influence of Lebanon's historical Christian majority sets it apart from mainland Syria, which has been a majority Muslim state since the advent of Islam many centuries ago.¹³² Furthermore, Lebanon has had a much stronger tradition of democracy and representative rule, while Syria has been ruled by autocratic governments throughout much of its history.

¹³⁰ Shehadi, N., & Haffar-Mills, D. (1988). *Lebanon: A History of Conflict*. IB Tauris.

¹³¹ Ibid. 3-4.

¹³² The proportion of Lebanese identifying as Christian has dropped dramatically since the civil war due to emigration. It is estimated that Christians now make up about 40% of the country's population.

The Lebanese-Syrian connection was only heightened during the Lebanese Civil War, when Syrian troops intervened and remained in the country until 2005.¹³³ This was accompanied by heavy Syrian influence in Lebanese politics; major actions could not be taken by the Lebanese government without approval from Damascus. Thus, when Syria became engulfed in its own civil war and the Syrian government could no longer maintain its grip on the Lebanese government, the country was thrust into political turmoil. Coalitions that were pro and anti-Syrian drew sharp lines in the sand, leading to divisions particularly between pro-rebel Sunni Muslims and pro-Damascus Shi'ite Muslims. The resulting political paralysis even kept the Lebanese Presidency vacant for more than two years, denying Lebanese Christians a key voice in government until Michel Aoun took power in October 2016.¹³⁴ Furthermore, an increase in the frequency and severity of terrorist attacks, the majority of which were related to the conflict in Syria, shook Lebanese society, particularly from 2013 to 2015.¹³⁵ To make matters worse, prior to the start of the war, Syria was Lebanon's fifth largest export partner, and as a direct result of the conflict, it is estimated that a Lebanese exporter of goods to Syria lost \$90,000 by 2012.¹³⁶ Most concerning for Lebanon, however, is the dramatic influx of Syrian refugees into the country. Recent estimates have the number of Syrian refugees residing in Lebanon at over 1.5

¹³³ Following the assassination of former Prime Minister Rafic Hariri, hundreds of thousands of Lebanese protested the long-standing Syrian occupation of the country. Within a few weeks of the protests, Syrian President Bashar al-Assad withdrew Syrian forces from the country in what became known as the Cedar Revolution.

¹³⁴ Habhab, A. (2016). President Aoun has no quick fix to Lebanon's challenges. *Harvard Journal of Middle Eastern Politics and Policy*. Retrieved from <http://hksjmepp.com/michel-aoun-lebanon-challenges/>

¹³⁵ The last major attack targeted the Bourj el-Barajneh suburb of Beirut in 2015, killing some 43 people and wounding dozens more.

¹³⁶ Cali, M., Harake, W., Hassan, F., & Struck, C. (2015). *The Impact of the Syrian Conflict on Lebanese Trade* (WP96087). Retrieved from World Bank Group website: <http://documents.worldbank.org/curated/en/908431468174247241/pdf/96087-WP-P148051-PUBLIC-Box391435B-Syria-Trade-Report.pdf>

million people.¹³⁷ As a result, nearly 1 out of 4 people living in the country is a refugee, the vast majority of which are from Syria.¹³⁸ The refugee crisis puts tremendous pressure on the Lebanese economy while also fanning the flames of the country's political paralysis. With state resources strained to help manage the flow of refugees, the Lebanese government's authority and effectiveness has been significantly weakened, particularly in areas that border Syria.¹³⁹ The result has been the degradation in the quality of state institutions across the country, and with it a weakening of the rule of law.

These developments paint a pretty bleak picture for Lebanon and its still developing economy. However, despite the tremendous pressures the Syrian Civil War brought upon Lebanon, the country has managed to stay together, albeit tenuously. But what of the conflict's impact on Lebanon's business ethics environment? All of the previously described developments have essentially degraded the anti-corruption and anti-black market trade enforcement mechanisms in the country. This process has been accompanied by a worsening of the country's business ethics environment. For instance, Beirut activists and entrepreneurs have been complaining about a rise in the overall levels of corruption in the country, including widespread concern about bribery.¹⁴⁰ In fact, concerns over the government's failure to handle a garbage collection crisis in 2015 morphed into anti-corruption protests in what became known as the "You Stink" movement, highlighting rising frustrations with the rampant corruption. As a result the new Lebanese President Michel Aoun and Prime Minister Saad Hariri created the post,

¹³⁷ *Lebanon: Syria Crisis*. (2017). European Civil Protection and Humanitarian Aid Operations.

¹³⁸ *Ibid.* 2.

¹³⁹ One area of particular concern is the Bek'aa Valley, a region east of Beirut that borders Syria. Prior to the start of the war, the Lebanese government had only marginal control over local security concerns; the conflict in Syria has only further weakened the central government's influence in the region.

¹⁴⁰ Gatten, E. (2014, October 5). Beirut fights corruption 'poisoning' the city. *Al Jazeera*. Retrieved from <http://www.aljazeera.com/news/middleeast/2014/06/beirut-lebanon-corruption-201462613392977108.html>

Minister of State for Combatting Corruption in order to better focus anti-corruption efforts in the wake of the Syrian conflict.¹⁴¹ Despite these efforts, however, little has been accomplished in the way of reducing the higher levels of bribery, extortion, and graft experienced since the start of the war in 2011. This has led to continued street protests against government inaction, further contributing to the political tensions that gridlock the Lebanese parliament.¹⁴²

In addition to the rise in corruption, the Syrian Civil War's impact on Lebanese institutions has also opened the door to growth in the black market. For example, as Lebanese security forces are stretched thin with a focus on protecting Lebanon from terror threats, the illegal *hashish* (cannabis drug) trade has grown dramatically.¹⁴³ Concentrated in the Bekaa Valley, *hashish* farmers have been able to escape close scrutiny in by the Lebanese government. The rise of the *hashish* trade and the failure of the government to challenge its growth has led to a fall in the confidence the Lebanese people have in their government. This dynamic might have a domino effect: if other illicit traders believe that they can escape punishment, as in the case of the *hashish* farmers, it is likely they will only increase the frequency and volume of their illegal transactions. Furthermore, with millions of Syrian refugees relatively unaccounted for, it is likely that businesses are exploiting their cheap labor for nefarious purposes.¹⁴⁴ Cheap inputs and weak government oversight reduce the barriers to entry in the black market, thus incentivizing growth

¹⁴¹ Lebanon loses almost LL5B annually to corruption: minister. (2016, December 31). *The Daily Star* [Beirut]. Retrieved from <http://www.dailystar.com.lb/News/Lebanon-News/2016/Dec-31/387426-lebanon-loses-almost-ll5b-annually-to-corruption-minister.ashx>

¹⁴² Habhab, A. N. (2016). Why Lebanon may delay elections - for a third time. *Harvard Journal of Middle Eastern Politics and Policy*. Retrieved from <http://hksjmepp.com/lebanon-election-delay/>

¹⁴³ Sherlock, R. (2014, December 19). How the war in Syria has flooded the market with marijuana. *The Telegraph*. Retrieved from <http://www.telegraph.co.uk/news/worldnews/middleeast/lebanon/11303654/How-the-war-in-Syria-has-flooded-the-market-with-marijuana.html>

¹⁴⁴ There is particular concern that Syrian children, for example, are being exploited for cheap labor from an early age. Additionally, there have been reports of forced labor and human trafficking since Syrian refugees began flooding the country in 2011-2012.

in illicit exchanges. As such, it is no surprise that Lebanon's underground market has increased in size and scope since 2011.

With increasing corruption and reduced accountability for unethical business practices, the Lebanese business ethics landscape has been significantly worsened since the start of the Syrian conflict. In many ways, the Lebanese case is exemplary of what is seen across the Arab world. The near constant political and economic pressures of conflict are felt far and wide in the region, weakening the strength of government institutions and promoting the growth of illegal businesses. Furthermore, it highlights the importance of recognizing that businesses indeed do not operate in a political or social vacuum: forces out of their control affect their structure, strategy, and day-to-day decision making. This case is also helpful for placing the corruption in the Middle East in an important context. Arab businesses are not facing the same constraints in North America, Europe, or Asia for that matter - they are constantly contending with the risk of violence, political instability, and repression. These factors play a major role in forming the contours of business culture, and ultimately, the acceptable business practices in the region.

A Note on Political Instability and Repression

In addition to violence and conflict, the Middle East is no stranger to political instability and abrupt regime changes. The Arab Spring, for example, brought upon some of the most tumultuous changes to Middle Eastern governments and yet, few predicted its rise.¹⁴⁵ With this in mind, we would be remiss not to mention the impact of political instability on the behavior of firms, as this would give insight into what is driving the poor business ethics landscape in the region. The impact of political instability on economic development has been well covered in academic scholarship (see **Corruption as a Constraint to Growth, Stability, and Security**),

¹⁴⁵ Goodwin, J. (2011). Why we were surprised (again) by the Arab Spring. *Swiss Political Science Review*, 17(4), 452-456.

but what of its impact on individual firms? In his article for *Third World Quarterly*, Jędrzej George Frynas discusses the relationship between political instability in Nigeria and Shell's operations in the country. In doing so, he argues that in Shell's case, political instability might actually be conducive to business.¹⁴⁶ Specifically, Frynas points to an internal memo from Shell that heralded Nigeria's weak 'absorptive capacity,' the idea that rampant corruption and underdeveloped political institutions could limit the state's ability to capture oil revenues (to the benefit of Shell).¹⁴⁷ Although in this example the affected firm indeed stands to gain from political instability, it highlights an area in which instability could affect the ethical considerations of an individual firm. In this case, the proper incentives are misaligned: firm success and economic development should go hand-in-hand. Political instability might remove an inherent sense of duty for firms to be positive role players in their host economy. In the Middle East, where political instability remains a major risk factor for businesses of all sizes and scopes, this phenomenon is particularly magnified.

Another political consideration that impacts business ethics in the Middle East is the widespread repression of political freedoms, namely free speech and freedom of the press. The Middle East and North Africa consistently ranks the worst in the world with respect to political freedoms and respect for human rights: In Freedom House's *Freedom in the World 2017* report, only one country, Tunisia, was categorized as "free," and three countries, Morocco, Jordan, and Lebanon were categorized as "partly free."¹⁴⁸ Arab regimes heavily censor the news media, effectively muzzling the "fourth estate," a key institution of accountability. Furthermore, with democracy still a novel concept to the region, only a handful of states hold free and fair

¹⁴⁶ Frynas, J. G. (1998). Political instability and business: focus on Shell in Nigeria. *Third World Quarterly*, 19(3), 457-478.

¹⁴⁷ Ibid. 473.

¹⁴⁸ *Freedom in the world 2017*. (2017). Retrieved from Freedom House website: https://freedomhouse.org/sites/default/files/FH_FIW_2017_Report_Final.pdf

elections, while the majority feature repressive, autocratic regimes. Power in concentrated hands, no matter who's, is problematic for the business environment. It was John Dalberg-Acton who said, "Power tends to corrupt and absolute power tends to corrupt absolutely." These words are rather apt in the Middle Eastern context: the cycle of repression and placation allows political leaders to pick winners and losers in the marketplace, distorting market forces and creating a culture of cronyism. Additionally, without a free press, it is difficult to accurately assess the pervasiveness of corruption in the local economy. The freedom to speak one's mind is an important part of free markets, and absent any major reforms across the region, the chances at a fully actualized business environment remain slim. However, with the Arab Spring in the rear view mirror, there is more hope than ever in states like Tunisia, for example, that progress is around the corner.

Ethics and the Law: Structural Defects in the MENA Region

Beyond cultural and political considerations, the business ethics landscape in the Middle East may also be influenced by systemic issues in the way businesses are organized and operate. Laws govern the structure of firms, the obligations of their agents and principals, and ultimately, the behavior of firms themselves. There is no question that the law is a major source of ethics and morality in the business world; often times, the lawful choice is also the moral one. In fact, a common analysis of business decisions in an ethics lens starts with the question: is it legal?, followed by is it ethical? With this in mind, it might be useful to examine the relative strength of the Middle East's legal framework in the business ethics environment. In Western economies, where there is a strong emphasis on the rule of law, there are consistent expectations about the form and general objectives of individual firms. The Middle East, however, lacks the same kind of legal and structural consistency. As a result, the distinction between legality and ethics may be

a bit more muddled in the Arab world. Firms might be incentivized to abuse this increased “ethical slack” absent the same legal enforcement regime.

Islamic Law and the Corporate Form

Renowned legal scholar and Judge of the United States Court of Appeals for the Seventh Circuit Richard Posner once wrote of the importance of the law in economic development:

A modernizing nation’s economic prosperity requires at least a modest legal infrastructure centered on the protection of property and contract rights. The essential legal reform required to create that infrastructure may be the adoption of a system of relatively precise legal rules, as distinct from more open-ended standards or a heavy investment in upgrading the nation’s judiciary. A virtuous cycle can arise in which initially modest expenditures on law reform increase the rate of economic growth, in turn generating resources that will enable more ambitious legal reforms to be undertaken in the future.¹⁴⁹

Posner correctly emphasizes the degree to which a precise, consistent legal framework can foster economic growth, particularly in developing nations. At present, however, Middle Eastern businesses must navigate a complex web of government regulations and contend with a sprawling and corrupt bureaucracy. Even beyond these surface defects, the Arab world also suffers from a business law and contractual tradition that is not well suited to the constraints and opportunities of the modern global economy.

Timur Kuran, Professor of Islamic Studies at Duke University, has written extensively on how commercial law in the Middle East stifles growth potential. He points the blame of the underdeveloped legal system in the Middle East squarely at the feet of Islamic Law, which has

¹⁴⁹ Posner, R. A. (1998). Creating a legal framework for economic development. *The World Bank Research Observer*, 13(1), 1-11.

had significant influence over the Arab world's legal development for centuries. More specifically, he faults three problematic trends:

The institutions that generated evolutionary bottlenecks include: 1) the Islamic law of inheritance, which inhibited capital accumulation; 2) the strict individualism of Islamic law and its lack of a concept of corporation, which hindered organizational development and contributed to keeping civil society weak; and 3) the waqf, Islam's distinct form of trust, which locked resources into organizations likely to become dysfunctional over time. These institutions did not pose economic disadvantages at the time of their emergence. Nor did they ever cause an absolute decline in economic activity. They turned into handicaps by perpetuating themselves during the long period when the West developed the institutions of the modern economy.¹⁵⁰

Kuran's argument provides some color to the discussion of the Middle East's lag behind the West in **Historical Survey of Business in the Middle East**. The second point furthered by Kuran is of particular relevance to this paper. The rise of mercantilism and subsequently, the Industrial Revolution, necessitated the creation of financial institutions and corporate forms that would pool resources and risk as transactions increased in both frequency and value. And yet, as Kuran provides, the Arab world remained reliant on archaic forms of enterprise, which were more temporary in nature and limited the ability of many individuals to pool resources for a business purpose.¹⁵¹ Furthermore, even as Arab states have since adopted Western commercial codes to catch up with more modern forms of the corporation, they faced growing pains

¹⁵⁰ Kuran, T. (2004). Why the Middle East is economically underdeveloped: historical mechanisms of institutional stagnation. *The Journal of Economic Perspectives*, 18(3), 71-90.

¹⁵¹ Ibid. 72-73

associated with learning a new legal framework, leading to corruption and incompetence, problems that persist today.¹⁵²

The Arab world attempted to incorporate hundreds of years of maturity of the corporate form in the Western world without any of the shared history or the associated development of laws and free courts to enforce said laws. As a result, although modern forms of business indeed exist in the Middle East, they represent a far smaller proportion of economic activity than their counterparts in Western economies. Due in part to the influence of Islamic Law on Middle Eastern society, as argued by Kuran, small and medium sized businesses remain king in the region, despite the advantages of scale. Economic disadvantages aside, how does this failure to properly appreciate the value of the modern corporation connect to business ethics? It is not as if exceedingly large corporations are immune from the specter of corruption or abuse. In fact, it was not until the 1970s and 80s that many began to advocate a change in the way we should view the role of corporations, in part inspired by a number of ethical scandals affecting major corporations. Still, there are advantages that the corporate form confers from a business ethics perspective. For one thing, the ability to separate the business from its owners limits the degree to which the owners can use the business as a vehicle to shield their personal assets. Similarly, a properly functioning corporation theoretically aligns the incentives of the employees with the shareholders, mitigating the degree to which the owners can exploit or abuse their employees for personal gain. Perhaps less obvious is the advantage that scale poses for public users of information. Large, mature corporate forms provide a dearth of information to public and private users for the purposes of accountability. For example, the regular publishing of independently audited financial statements can mitigate the risk of fraud in the marketplace, a phenomenon

¹⁵²Ibid. 86-87

largely absent for smaller firms. In the Middle East and North Africa, where firms remain significantly smaller in comparison and information is hard to come by, investors are left in the dark. Furthermore, there is concern that opacity could encourage unethical behavior. Another advantage of the corporate form is the ability to organize around a set of rules, collectively known as corporate governance, which help bind its actors to ethical standards. Without these important checks on the activities of individual firms, decision making becomes concentrated in one individual or a small handful. This dynamic in Middle East business form may contribute to the poor business ethics landscape and is an important target of reform.

Bridging the Ethical Chasm: Solutions for Improving Business Ethics in the Middle East and North Africa

The bulk of this paper explains the impacts and sources of the poor business ethics environment in the Arab world, but absent in our discussion so far are the potential solutions for challenging and reforming the current landscape. Using the factors outlined in **Cultural, Political, and Structural Underpinnings for the Poor Business Ethics Landscape in the Middle East**, we can propose a plan of action for public, private, and community actors that begin to address the defects in the region's business environment. The confluence of the aforementioned factors puts the region at a significant disadvantage when compared to other regions, particularly those in the West, in the competition for economic growth, investment, and

prosperity. This *ethical chasm* is a major roadblock to a healthy, growing economic environment in the Middle East. Yet even then, it is important to recognize that the business ethics challenge is only one of many that lie ahead on the road to proper economic development. Broken politics and the brain drain of the region's top talent will continue to set the region back when compared to its counterparts. However, the plan of action outlined in the next few chapters marks an important first step in changing the culture of corruption that suffocates entrepreneurship and investment in the Arab world. The hope is that by doing so, the region can come that much closer to real progress.

Reforming the State: Public Policy Objectives

Although it may seem counterintuitive to look for solutions from the very political systems that contribute to the ethical chasm in the first place, there is no question that Arab leaders can play a positive role in reform, particularly with respect to combating corruption. In fact, in the post-Arab Spring environment, many Arab leaders, even those presiding over autocratic governments, have signaled an increased desire to address citizen concerns about the pervasiveness of corruption, especially in the bureaucracy.¹⁵³ With this in mind, there are three pillars of policy reform that might help alleviate corruption in the region: 1. Prioritizing the fight against corruption 2. Improving transparency in state processes 3. Reducing for the incentives of corruption at all levels of government

¹⁵³ One such example is King Abdullah of Jordan, who moved to enhance the powers of the Jordan Integrity and Anti-Corruption Commission (JIACC) and has made efforts to limit his own power. Royal Hashemite Court. (2017, January 24). King meets with integrity committee, anti-corruption commission members. Retrieved from <https://kingabdullah.jo/en/news/king-meets-integrity-committee-anti-corruption-commission-members>

An Anti-Corruption Ministry?

A 1997 policy study by the World Bank found that:

In a country with heavy corruption and poor governance, the priorities in anti-corruption efforts would then be to establish rule of law, strengthen institutions of participation and accountability, and limit government interventions to focus on core mandates. In a country with moderate corruption and fair governance, the priorities would be decentralization and economic reform, results-oriented management and evaluation, and the introduction of incentives for competitive delivery of public services.¹⁵⁴

Given that much of the Middle East falls into the first category (heavy corruption, poor governance), it would be prudent for Arab governments to focus on improving transparency and accountability, while also prioritizing corruption reform.

Lebanon recently took steps to address the scourge of corruption that may serve as a model for other Middle Eastern states. As discussed in *Case Study: Lebanon in the Shadow of Syria*, Lebanon's newly formed government created a new Ministry of State for Combatting Corruption, a bold move to assuage concerns from the Lebanese people about bribery and graft in the bureaucracy.¹⁵⁵ Although far from a complete proposal, the Ministry is an important step towards for the government in recognizing that it indeed has a role in combating the deep reaches of corruption. Furthermore, even if the Ministry lacks significant enforcement power in rooting out corruption, its true significance lies in its ability to raise awareness of corruption and its impact on the country. Other Arab states

¹⁵⁴ Huther, J., & Shah, A. (2000). *Anti-corruption policies and programs: a framework for evaluation* (Vol. 2501). World Bank Publications.

¹⁵⁵ See *supra* note 140.

should seek to emulate this important step, but give their anti-corruption mechanisms some real enforcement teeth. Anti-corruption officials should have broad authority to investigate and prosecute suspected cases of graft; doing so would create a chilling effect on the incentives for corruption, while also improving accountability across the state. Furthermore, the government should provide adequate protections for whistleblowers, ensuring that they feel comfortable in reporting abuse without the specter of adverse employment action or intimidation.

Jordan also took steps in the right direction by strengthening the authority and enforcement power of its anti-corruption agency, the Jordan Integrity and Anti-Corruption Commission (JIACC).¹⁵⁶ Actions such as these help to improve the rule of law and promote confidence in the government's ability to self-police. However, creating anti-corruption committees and new ministries are only surface level changes at best. Comprehensive reform requires changing the culture of complacency through transparency, as well as removing the incentives for corruption at all levels of government.

Transparency as a Weapon Against Corruption

According to Transparency International's 2016 report on corruption levels across the globe, it highlighted a lack of transparency as one of the key factors contributing to the higher incidence of corruption in the Middle East and North Africa.¹⁵⁷ At the same time, there is significant evidence that enhanced transparency helps to reduce the threat of corruption; the general principle is that transparency increases accountability and limits

¹⁵⁶ See *supra* note 153.

¹⁵⁷ El Shabrawy, W. (2017, April 4). Middle East and North Africa countries through the lens of the 2016 Transparency International Report. *World Bank*. Retrieved from <http://blogs.worldbank.org/arabvoices/mena-transparency-international>

abuses behind closed doors.¹⁵⁸ Nonetheless, many Arab governments have opaque budget processes that leave citizens in the dark about where their tax dollars are spent.

Furthermore, government proceedings are seldom recorded and made available for public view.

In the spirit of transparency, Arab governments should publish long form annual budgets that explain the flow of public resources, making politicians more accountable to taxpayers. Additionally, unless the state has a compelling interest in keeping specific information private, government proceedings and meetings with private sector actors should be a part of the public record. Furthermore, a 2010 report OECD report titled *Supporting Investment Policy and Governance Reforms in Iraq*, highlighted the importance of improving transparency in the public procurement process, particularly by posting public procurement notices and giving bidders adequate time to prepare their bids.¹⁵⁹ In a region where public contracts form a significant part of GDP, this third recommendation can be particularly useful in reducing fraud and abuse. The effectiveness of these reforms also lies in their practicality: they do not require a massive political sea change, they simply reinforce the government's commitment to the principles of good governance, while making corruption a more difficult enterprise.

Enhanced transparency also effectively targets the culture of complacency (referred to as *al-fassad al-edary* in Arabic) that dominates bureaucracies across the Middle East and

¹⁵⁸ Peisakhin, L., & Pinto, P. (2010). Is transparency an effective anti-corruption strategy? Evidence from a field experiment in India. *Regulation & Governance*, 4(3), 261-280.

¹⁵⁹ Organisation for Economic Co-operation and Development. (2010). *Supporting investment policy and governance reforms in Iraq*. Paris: OECD.

North Africa.¹⁶⁰ Systematic nepotism stemming from the *wasta* system places unqualified people in the civil service, many of whom are motivated by things other than a commitment to public service. From this it follows that shining a light on the activities of officials at all levels of government can both align the incentives of bureaucrats with the public good while also reducing the pervasiveness of nepotism. This leads us to the third pillar of government reform: changing incentives such that corruption is no longer as attractive.

Lifting incentives for corruption

In many ways, the bureaucracy suffers from the same principal-agent problem that challenges large corporations. The bureaucracy (the principal) should endeavor to advance the interests of the public, but sometimes, the bureaucrats (the agents) are incentivized to take actions that benefit themselves, but contradict the interests of the bureaucracy. This is especially the case when it comes to corruption: corrupt officials absorb all of the benefits of bribery, graft, extortion, etc, but push the costs onto society. With this in mind, it is critical that the state enact policies that will realign the incentives of government officials with the mission of good governance.

As outlined in **Corruption in the Middle East and North Africa**, petty corruption tends to be the most prominent form of public corruption in the region. It is likely that without proper controls, many public officials are incentivized to take part in corruption. There are three basic strategies that Arab governments can utilize to help lift the incentives for corruption: 1. Shrinking the size of the bureaucracy 2. Improving pay and benefits for civil servants. 3. Levying stiff penalties for corruption.

¹⁶⁰ Siperco, I. (2009). Crisis of Complacency: The Criminalization of the Yemeni State. *Middle East Policy Council*. Retrieved from <http://www.mepc.org/articles-commentary/commentary/crisis-complacency-criminalization-yemeni-state?print>

With respect to the first recommendation, the Arab world already suffers from bloated, overly complex bureaucracies that have a hand in many parts of the regional economy. Reducing the size of the bureaucracy would decrease state influence in the economy, limiting the willingness of private actors to engage in bribes or other forms of corruption to curry state favor. On the second recommendation, paying civil servants livable wages will reduce the temptation to seek wealth through corruption while also attracting better talent.¹⁶¹ Finally, by increasing the costs of corruption through stiff criminal penalties, Arab governments might be able to reduce the attractiveness of corruption at all levels of government.

Targeted Education Campaigns

Beyond their duties in combatting corruption, Arab governments also have a pivotal role in changing the culture of business ethics in the region by promoting honest business practices. For example, public marketing campaigns explaining the harmful impact of *wasta* might be able to change cultural attitudes about nepotism in the public and private sector. By raising awareness of the costs of corruption on society, average citizens might be better able to recognize forms of corruption masking in cultural tradition while also encouraging them to report corruption to the relevant authorities. These social marketing campaigns cannot stand alone however, but should instead supplement comprehensive government reform at an organizational level.¹⁶² In doing so, Arab governments and citizens alike can

¹⁶¹There is empirical evidence that there is a negative relationship between civil servant wages and corruption. Van Rijckeghem, C., & Weder, B. (2001). Bureaucratic corruption and the rate of temptation: do wages in the civil service affect corruption, and by how much?. *Journal of development economics*, 65(2), 307-331.

¹⁶² Kindra, G. S., & Stapenhurst, R. (1998). *Social marketing strategies to fight corruption*. Economic Development Institute of the World Bank.

play a role in improving the business ethics environment, while also expanding civic participation.

The public policy objectives outlined in this chapter are not intended to be an exhaustive program of reform, but rather highlight some key, practical steps that Arab states could undertake to reform business ethics and corruption in the region. In the next chapter, we turn to the role of the private sector in making important changes.

Private Sector Responsibility and the Role of Firms

Although the government reforms proposed in the last chapter indeed target some of the important political, structural, and cultural underpinnings to the poor business ethics environment in the Middle East and North Africa, they ultimately rely on the swift action of state actors, which, given the current political climate in the region, is highly unlikely. This shifts some responsibility on the private sector to self-reform and self-regulate. Corruption and poor business ethics are collective problems; they worsen the economic environment for all firms, particularly those with little political clout. As such, the private sector shares significant responsibility in leading reform efforts. Furthermore, the increasing focus on the role of firms in improving the societies in which they operate and the power of CSR to create macro level changes makes private sector reform all the more important.¹⁶³

A Unified Ethics Board

One of the systemic issues in the Middle Eastern economy highlighted in the chapter, **Historical Survey of Business in the Middle East**, was the lack of integration across Arab states. This makes cross border political and economic coordination exceedingly difficult, despite the fact that many of political and economic issues are shared by all Arab states. The

¹⁶³ See *supra* 14.

same coordination problem applies in the context of business ethics - how might private sector actors in different corners of the region work together to promote ethics and accountability? One potential solution is the creation of a region-wide, private sector ethics board. The organization could feature representatives from different industries and across nationalities, joining forces for the mission of promoting fair dealing and honest business practices. Absent a centralized government effort, the board could also call for greater transparency in the private sector. Private firms are not immune to the same dangers of opacity experienced in the government. Without the principles of transparency, private businesses of all sizes might be concealing the true financial health of their business, limiting the willingness of investors to put up capital towards a business operation. At present, cultural norms in the Middle East do not place a heavy emphasis on transparency in business, and it is instead viewed as an unnecessary expense.¹⁶⁴ With voices in the private sector calling for greater transparency, the region could see a trend focused on greater accountability. That being said, there is a risk that this regional ethics board ends up having limited influence on actual business activity. Business in the region remains heavily fragmented, and in countries like Lebanon, SMEs may constitute close to 90% of businesses.¹⁶⁵ However, if major players set the ethical standard at the top, smaller firms may emulate their business practices.

The Role of CSR

Ultimately, as the last subsection highlights, real changes in regional business ethics will have to come at the individual firm level. Enter the role CSR can play in changing the way business is conducted. Underlying the impetus for firms to employ CSR is the idea that a firm

¹⁶⁴ Singh, A. (2012, August 29). Transparency in the Middle East: Still a Dirty Word. *Forbes*. Retrieved from <https://www.forbes.com/sites/csr/2012/08/29/transparency-in-the-middle-east-still-a-dirty-word/#4cb1957e9787>

¹⁶⁵ See *supra* note 63. Bishara.

can *do well by doing good*. There is growing evidence that links socially responsible business practices with improved financial performance, driving the growth in CSR activities in the Western world.¹⁶⁶ Furthermore, CSR may have the potential to create a corporate virtuous cycle of sorts, improving the general business ethics environment in which socially responsible firms operate.¹⁶⁷ Today, the great majority of large U.S. firms publish annual CSR reports along with their financial statements, a demonstrative shift towards socially responsible business practices.¹⁶⁸ There is potential in employing the CSR model in the Middle East as an effective tool for improving the business ethics landscape and combating corruption. In their article, *Anti-corruption As Strategic CSR: A call to action for corporations*, Greg Hills, Leigh Fiske, and Adeb Mahumud argue that because corruption is a social problem that doubles as a “bottom-line business issue,” it is ripe for firm specific targeting through CSR activities.¹⁶⁹ More specifically, they believe that firms can fight corruption as a matter of CSR by ensuring compliance, strengthening collective action (a possible role for the proposed unified ethics board), engaging the public sector in reform, and using corporate assets as tools against graft.^{170, 171} This proposal is interesting for several reasons. First, it asserts the responsibility firms have in tackling collective social problems and two, it offers a roadmap for how anti-corruption CSR may be applied. However, there is concern that such activities would only be viable in, say, the GCC,

¹⁶⁶ Waddock, S. A., & Graves, S. B. (1997). The corporate social performance-financial performance link. *Strategic management journal*, 303-319.

¹⁶⁷ Ibid. 166.

¹⁶⁸ CSR's Mainstream Shift: 81% of Leading Companies Published Corporate Sustainability Reports in 2015. (2016, March 16). *Bulldog Reporter*. Retrieved from <https://www.bulldogreporter.com/csrs-mainstream-shift-81-of-leading-companies-published-corporate-sustainability-reports-in-2015/>

¹⁶⁹ Hills, G., Fiske, L., & Mahumud, A. (2009). Anti-corruption as Strategic CSR: A call to action for corporations. *FSG Social Impact Advisors*, 1-52.

¹⁷⁰ Ibid. 4.

¹⁷¹ The article was written in accordance with the Merck Company Foundation whose own efforts with anti-corruption CSR through the establishment of the Gulf Centre for Excellence in Ethics in the UAE are highlighted. See *supra* note 168.

where corporations tend to be far larger than those elsewhere, the Levant in particular. Furthermore, instituting a culture of CSR in a region where the corporate form is still in its infancy is bound to face some cultural resistance. And yet, there is a case to be made that appeals to traditional Arab values and Islamic ethics of generosity and charitableness may make firm behavior reform more palatable to Arab businesses.¹⁷²

In their book, *CSR in the Middle East: Fresh Perspectives*, Middle East CSR experts Dima Jamali and Yusuf Sidani explain this dynamic rather aptly:

Islamic philanthropy provides a strong foundation for CSR in the region, and constitutes a pivotal tradition of voluntary giving that falls outside the realm of presume Western largesse... Across the Middle East philanthropic practices and entrenched forms of indigenous giving have no doubt been crucial to date in alleviating deep-seated social problems. However, with the blowing winds of change, what is needed in the Middle East at this critical juncture is a more institutionalized form of modern philanthropy that preserves the original social values but mobilizes resources more effectively in facilitating social change and promoting sustainable development.¹⁷³

Despite its Western origins, CSR might actually be more suited to meet the family-oriented and community-centric cultural values in the Arab world. With this in mind, introducing CSR as an integral part of the business process in the Middle East may be the region's best bet at changing the business ethics culture. A CSR focus could help Arab business owners begin asking the kinds of important ethical questions that underlie any critical business decision, helping to change business culture from the ground up. The future of reform in the Middle East is unlikely to happen at the top, but rather, must begin within the youthful, cosmopolitan, and tech savvy

¹⁷² See *supra* note 164.

¹⁷³ Jamali, D., & Sidani, Y. (Eds.). (2012). *CSR in the Middle East: Fresh perspectives*. Springer. 2-3

generation that is more likely to see the benefits in the triple bottom line. As such, importing CSR and adapting it to the regional culture may be the strongest reform effort for the future.

Corporate Governance

Intertwined with notions of CSR and business ethics are standards of corporate governance, which refer to the rules by which an organization or firm governs itself. These rules are often the combination of internally imposed controls and laws mandated by the government.¹⁷⁴ As discussed in **Ethics and the Law: Structural Defects in the MENA Region**, corporate governance standards can play an important role in ensuring that ethical decision making flows through all levels of the organization. They help to discipline leaders in the firm while also making the firm more attractive for investment.¹⁷⁵ Strides have been made towards adopting OECD corporate governance guidelines among Middle Eastern countries, but these standards are mostly relevant at the large firm level, especially banks.¹⁷⁶ Despite the challenges of improving corporate governance standards at the small and medium sized firm level, there are still opportunities for stronger internal rules. Smaller enterprises can still draft rules and guidelines by which they will conduct their business, covering everything from shareholder rights to legal compliance processes. By adopting formal rules, for example, on hiring practices, the amount of *wasta*-connected hiring may be subdued. Firms can refer to these rules for guidance on business practices, helping to guide ethical action throughout the organization. Enhanced corporate governance standards might also limit the degree to which firm culture is set by one particular individual, another structural and cultural challenge that may be contributing to the poor business ethics environment. These firm-specific steps, whether through CSR or

¹⁷⁴ See *supra* note 63. Bishara.

¹⁷⁵ *Ibid.* Bishara.

¹⁷⁶ Koldertsova, A. (2011). The second corporate governance wave in the Middle East and North Africa. *OECD Journal: Financial Market Trends*, 2010(2), 219-226.

improved corporate governance, have great potential to reform the standards of ethics in the Arab world.

Civil Society and the Media

An important cornerstone of any well-developed political and economic environment is the presence of a healthy and vibrant civil society. A strong civil society has the power to turn activism into tangible legislation and hold government actors accountable. As such, NGOs and other civic institutions can play a vital role in business ethics reform in the Middle East and North Africa. In fact, the last 20 years have seen a rise in the number of NGOs that address issues of corruption and business ethics in the region. One such organization is the Lebanese Transparency Association (LTA), which, states that it “advocates for reform by focusing on systemic improvement and by building coalitions with other anti-corruption stakeholders, including the government, parliamentarians, the private sector, media institutions, the international community and civil society organizations.”¹⁷⁷ The LTA has, for example, drafted Lebanon’s “first code of corporate governance,” in order to encourage Lebanese businesses to adopt stronger internal controls as a means for attracting investment.¹⁷⁸ This kind of proactive behavior from NGOs should be encouraged as an important tool for reform. However, outside of Lebanon, which is relatively more hospitable to NGOs, government restrictions on free speech and civil assembly across the region limit the influence of civil society. One notable bright spot in the NGO space is the Hawkamah Institute for Corporate Governance, which, since its establishment in 2006, has produced research and held conferences to promote the proliferation

¹⁷⁷ Daleel Madani. (2017). NGO Profile | Lebanese Transparency Association. Retrieved from <http://daleel-madani.org/profile/lebanese-transparency-association>

¹⁷⁸ The Lebanese Code of Corporate Governance was drafted by Nada AbdelSater-AbuSamra and Norman Bishara (see *supra* note 63)

of enhanced corporate governance standards for use by regional businesses.¹⁷⁹ The next step is to strengthen the relationship between civil organizations and policy makers, turning activism into concrete reform.

Another important institution of government and corporate accountability is the news media. The Arab world has a strong tradition of press diversity, but the editorial freedom of newspapers, television channels, and radio stations varies wildly depending on the country. On a general level, however, the trend is towards state censorship and press restriction. Clampdowns on freedom of the press can help foster a poor business ethics environment because it results in another area of opacity where transparency would do some good. Furthermore, a free news media has the power to expose high-profile scandals involving government and corporate actors alike, which raises the cost of corruption, thus reducing the willingness of actors to undertake in corrupt acts.¹⁸⁰ The media often takes the moniker *the fourth estate* for its important role as an institution of accountability. One potential workaround state repression of the media is an increased emphasis on new media,¹⁸¹ which are more difficult to censor and control. Arab “muckrakers” might be wise to employ the model of Chinese *netizens*, who have used digital media to improve accountability and increase government transparency, often times connected to corruption concerns.¹⁸² A stronger, more decentralized media, coupled with a healthier civil society might be able to take truth to power in a way that makes businesses and government officials become more ethically inclined.

¹⁷⁹ Hawkamah | History. (2017). Retrieved from <https://www.hawkamah.org/about-us/history>

¹⁸⁰ Camaj, L. (2013). The media’s role in fighting corruption: Media effects on governmental accountability. *The International Journal of Press/Politics*, 18(1), 21-42.

¹⁸¹ Refers to independent media, often on digital platforms.

¹⁸² Yang, G. (2009). Online activism. *Journal of Democracy*, 20(3), 33-36.

Conclusion

In the post Arab Spring era, the Middle East and North Africa has been teetering on the edge of true reform and a reversion to the kinds of autocratic power structures that have characterized much of its modern history. At the same time, the anger in the Arab Street demonstrated that the corruption-laden and poor business ethics landscape status quo is no longer working for the Arab people. It opens the door to political instability, limits the growth potential of regional businesses, and ensures the continued concentration of power in the hands of an elite few, rather than the achievement of widespread prosperity. Despite this grim picture, however, lying underneath the chaos and tumultuous change in the Arab world is a real opportunity to change the traditions of old. Business has the transformative power to both lift people out of poverty and create positive societal change. It need not be the case that economic power be a tool of political repression and corruption, but rather that businesses play a role in promoting shared success across the region. Indeed, the cultural, political, and structural hurdles facing the region represent a steep obstacle on the road to reform, but with common sense policies that root out corruption, combined with a heightened sense of firm level responsibility, the move towards a more ethical business environment is very much in reach. The reforms outlined in this paper represent just an important first step towards bridging the *ethical chasm*, but nonetheless, offer a practical roadmap for Arab businesses and policymakers alike.